Options and Opportunities

Agricultural Finance in Alberta

A Report presented by the Committee appointed to Review the Alberta Agricultural Development Corporation

June 1987

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Presented by the Committee appointed to review
the role and mandate of the Alberta Agricultural
Development Corporation
June, 1987

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LIST OF CONTENTS

Chapter 4

ADC - THE CORPORATION IN REVIEW

Chapter 5

OPTIONS AND OPPORTUNITIES
COMMITTEE RECOMMENDATIONS

Appendix

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FOREWORD

This study is more than a routine review of a Crown Corporation. It is also an examination of the underlying strength and the structural fault of Alberta's agricultural economy. Agricultural producers in this province are envied for their technological advances, entrepreneurial spirit and diversity of production. However, due to high fixed costs caused by inflated land values and high debt levels, many of the most progressive, highly productive farmers are under severe financial stress. If the real problem is addressed and appropriate adjustment takes place, the industry in Alberta can yet reach its potential and remain competitive in an international market place.

This report spans the gulf between what we as a Committee sensed Albertans were feeling and the hard statistical evidence requiring action. We have submitted our findings for public scrutiny, debate and action, knowing too well that more work needs to be done. The current plight of some farmers is beyond being redressed by our recommendations, but we sense that now is the time to plan for the future. We must set goals and deal with the underlying debt problem or we will continue to leave a significant number of producers financially stressed and dependent upon government support. Short term, ad-hoc actions, if necessary, should not prevent a major adjustment.

In preparing its report and recommendations, the Committee has been assisted by many individuals who took the risk of community criticism, exposure, and ridicule to "tell it as they saw it". Useful information has also been provided by Alberta Agriculture, ADC staff and directors, Farm Credit Corporation staff, our research analysts and coordinators and many concerned farm organizations. Though much of their information forms the basis of our findings we, as Committee members, willingly accept responsibility for any errors or omissions in detail and design.

Lloyd Quantz, Chairman

Alice Brown

Doug Cherry

Larry Greer

Brian Downey

Jim Heron

John Krall

Frank Spanbauer

OVERVIEW

Alberta farmers are facing substantial financial difficulties. Undoubtedly the seeds of a crisis are present as the agricultural industry enters an extended period of adjustment. The Committee anticipates that this period of adjustment will be characterized by a significant reduction in the agricultural debt load over the next ten years. For the first three to five years the reduction in the debt portfolio will probably be accompanied by lower asset values and lower levels of gross income, particularly in grain production.

The Committee strongly recommends that the Government of Alberta take positive steps to counteract the downward trend in the agricultural economy. **In particular it is recommending that this action be in the form of providing new options and opportunities for the industry, rather than through market intervention or income assistance.** All action must be aimed at facilitating an environment in which adjustment can take place as quickly and smoothly as possible. Additional help must be carefully targetted to achieve results.

The Committee paid careful attention to the concerns of both producers and the agribusiness industry. In spite of the fact that many participants suggested income and greater interest relief, the general tone of the concern confirmed the need for operating flexibility and new opportunities. The Alberta industry primarily wants to compete effectively on a national and international scale and both producers and agribusinessmen referred to the need for a "level playing field".

The Committee contends that the Government of Alberta should shift its emphasis in agriculture away from a capital investment role to a role of strongly developing new opportunities, and to a role of enhancing the environment in which the industry can function effectively in an open market place.

The agricultural industry in Alberta is presently going through its greatest financial adjustment in fifty years. The Government of Alberta has made a firm commitment to address this issue and the scope and mandate of the ADC Review Committee indicates this commitment. Over the past fifteen years the Alberta Agricultural Development Corporation has approved the distribution of $2.5 billion in direct loans and loan guarantees to farmers and agribusinesses.* These loans are in addition to the $2 billion in guarantees, offered through private sector lenders under the Alberta Farm Credit Stability Program.

The Hon. Shirley Cripps, Associate Minister of Agriculture, in commissioning the Review, addressed the Legislature as follows:

> *"Agricultural credit has become a major concern of the agriculture industry and among individual producers. The Committee will review the role and mandate of the Alberta Agricultural Development Corporation. It is expected that through this review a long-term approach can be determined for initiatives that would effectively serve the financial needs of Alberta farmers and agribusinesses.*
>
> *A series of producer forums will be held throughout the province. I am urging all farm organizations, interested individuals, companies and agribusinesses having concerns, to submit briefs expressing their viewpoint at the public forums. The review may well establish new innovative mechanisms for financing agricultural credit.*
>
> *The Committee members have been chosen for their business and agricultural experience and knowledge and are geographically representative of the province."*

To determine the appropriate role of government in financing the further develop-

- *Review the original purpose and intent of ADC.*

    - *Have ADC's programs and objectives been met since its inception?*

    - *Is the original purpose and intent of ADC applicable to today's agricultural financing and lending requirements?*

- *Review the current agricultural lending programs for Alberta farmers as available from other sources; i.e., Farm Credit Corporation, banks, the Alberta Farm Stability Program, etc.*

* As of March 31, 1987 there were accumulated authorizations of $2.7 billion in direct loans and loan guarantees of which $1.1 billion of guarantees were through commercial lenders on the A.F.D.L. Program.

- *Assess the current financial status and needs of the industry.*
- *Review the corporate structure, administration and program delivery system of ADC.*
- *Review new and innovative mechanisms for financing agriculture, i.e., equity financing, the production credit concept, etc.*
- *Make recommendations.*

The Review Committee was initially assisted by a steering committee comprised of Alberta Agriculture staff, ADC staff and an ADC Board member. The steering committee dealt with budgets, research, and data collection. Administrative coordination was carried out through the office of the Committee Chairman.

Public hearings were conducted in 31 centers throughout the Province. Many recommendations were submitted in letters and briefs. The intensity of discussions at all levels, confirmed the need for the review. In excess of 300 submissions were made, representing more than 900 Alberta producers, producer organizations and agribusinesses.

During the hearings, the Committee was confronted with a wide variety of opinions as to what the real causes of the financial stress are, who is responsible and what can, or should be done, to help farmers and agribusinesses. Many farmers indicated it will be difficult to meet expenses and pay off loans if the present market condition for grain continues much longer. Most indicated that a lack of profitability in grain production and accrued losses in livestock, were causing stress and hardship. Several farmers indicated they felt trapped in the system and concluded that there were only limited options available.

The remainder of this report details the current situation in agriculture and projected trends in the industry over the next five to ten years. Recommendations are made to alter or delete existing programs and to place emphasis on new initiatives.

HISTORY AND DEVELOPMENT OF ADC

(An excerpt from the Review Background paper published in 1986)

> *"My government appreciates the serious situation arising from the decline of net farm income over the past three years. Through an Agricultural Development Act, a major attack will be launched on the problem of helping to improve the strength of the family farm and the declining income level in agriculture. My government will establish an Agricultural Development Fund which will have a total of fifty million dollars to cover all areas of agricultural credit, with special programs aimed at the small farmer and the young farmer. The programs will be particularly and specifically related to marketing opportunities."*
>
> Speech From The Throne, March, 1972

The Alberta Agricultural Development Corporation (ADC) was established as a Crown Corporation in 1972. The preservation of the family farm was important to the government of the day. A high priority was placed on improving market opportunities for farm products, improving the cash income of Alberta farmers and assisting beginning farmers to establish. ADC was seen as one means of achieving these objectives.

In 1972, the conventional approach to securing farm loans meant those farmers most urgently needing credit were likely to be found ineligible. A need was perceived for a credit agency to assist beginning and low-income farmers to establish viable farms. Easier financial terms with reasonable interest rates were seen as a way of assisting these Albertans.

ADC was established to meet the deficiencies in financing available to farmers and agribusinesses by functioning as a lender of last resort. Presently, funding for ADC operations is generated through the issue of debentures to the Alberta Heritage Savings Trust Fund and through contributions from the general revenues of the province. The Agricultural Development Act identified the purposes for which funds might be advanced, as follows:

- Purchasing land.
- Consolidating outstanding liabilities.
- Constructing, altering, repairing or extending buildings on land owned or being purchased by the borrower.

- Making permanent improvements designed to increase the productive value of land which is owned or being purchased by the borrower.
- Purchasing agricultural implements or farm machinery.
- Purchasing livestock.
- Maintaining adequate operating capital.
- Establishing, developing or maintaining secondary agricultural industries.
- Any other purpose approved by the Corporation related to the establishment or maintenance of a farm unit.

One measure of the Corporation's success is the degree to which those receiving loans and assistance become able to handle commercial credit terms. In mid-1986, 70 per cent of ADC borrowers were fully current with their accounts after three years of bad weather and low commodity prices. Over the years, ADC has made 115,000 loans for a total of $2.5 billion. The portfolio at March 31, 1986 is detailed in the following table.

Agricultural Development Corporation Loans and Guarantees (March 31, 1986)

	Number of Loans	$ Millions
FARM		
Direct Loans		
Beginning Farmers	6,108	769.5
Other Direct	3,379	194.9
Total Direct	9497	964.9
Specific Guaranteed Loans	149	11.9
A.F.D.L.'s[1]	15,525	161.8
Farm Development Guarantees	31	1.2
Implemented Guarantees	210	4.8
Total Farm	25,312	1,144.1
AGRIBUSINESS		
Direct Loans	59	47.6
Specific Guaranteed Loans	25	8.1
Letters of Credit	1	5.9
Implemented Guarantees	13	3.9
Total Agribusiness	98	65.6
Total Farm and Agribusiness	25,410	1,209.7

[1] Figures on Alberta Farm Development Loans are based on quarterly information available from commercial lenders. Source: ADC

From the beginning, the objective has been to integrate ADC with the financial services of the Farm Credit Corporation and commercial lenders. ADC was a supplementary lender and, as a result has developed a number of imaginative farm

and agribusiness lending programs on both a direct and guaranteed basis. These programs were designed to:

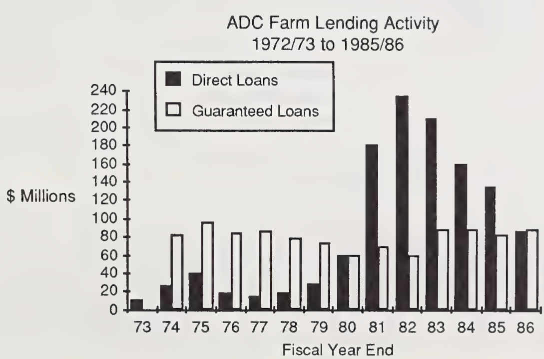
- Meet the expanding credit needs of agriculture.
- Ease the intergenerational transfer of land.
- Help young farmers start their own economic units.
- Assist developing and established farmers.
- Relieve the burden of short term debt.
- Expand the processing of agricultural products within Alberta.

In addition, ADC currently administers a number of incentive programs to encourage improved resource use, better cultural and husbandry practices and improved marketing facilities, and is involved in the counselling of farmers.

ADC's activity has not been without cost. During the twelve months ending 31 March 1986, for example, the Corporation showed a net loss of $51,800,000. General lender perceptions of future losses in agriculture are some two to three times the 1985 level. ADC has reserved an allowance of nearly $148,000,000 to cover potential losses on current loans and guarantees to farmers and agribusinesses. This represents about 12 per cent of the total portfolio.

Development of Direct Loans

The farm lending and incentive programs of ADC have evolved over the past decade to meet Alberta's changing credit needs. The Corporation first acted as a lender of last resort for all its direct loan programs. That criterion was dropped for the Beginning Farmer Program in 1980, but not for the other programs. ADC no longer wished to discriminate against a beginning farmer because of the parent's financial success. The change greatly expanded ADC's role in the intergenerational transfer of land. The following illustration highlights the dramatic increase in direct loans early in the eighties.



Most programs under ADC's direction have restricted criteria pertaining to net worth and assets and maximum levels are placed on the loans available under these programs. Over the years, these criteria have been changed to meet changing needs.

At first, direct loans were for a term of 25 to 30 years at a fixed rate of 7 per cent for the entire term. By May, 1979 the interest rate had risen to 9 per cent and an interest incentive was applied to the loan to reduce the rate to 6 per cent for the first five years. In June, 1979, a five- year renewable mortgage was introduced to allow the rate of interest to be adjusted up or down by 1 per cent at the end of each term. There was an interest rebate for beginning farmers to bring their rate down to 6 per cent. In April, 1980, a preferred farm lending rate of 12 per cent was established (following the upward trend in commercial rates) and it remained in effect until April, 1986 when it was reduced to 9 per cent.

Loans under the Beginning Farmer Program now make up the major portion of the ADC's portfolio. The original concept was to provide once-in-a- lifetime loans to new, first time farmers who would accept counselling and training, who would maintain a proper record system and whose off-farm employment did not detract from the operation of the farm. At first, beginning farmer loans were restricted to those between 20 and 30 years of age, and to a maximum of $85,000. The maximum has since been increased, the age requirement has been eliminated, the program allows for the restructuring of debt for up to a 30 year term since 1978 and, with the 1980 changes, the Corporation has become the primary lender to beginning farmers.

In March, 1984, because of the extreme financial pressure on the industry and especially on new farmers, the restrictions on off-farm employment were relaxed. A borrower employed on an off-farm basis for more than six months, but still committed to establishing a full-time farming operation, was now eligible for the incentives, provided that the mortgaged assets were actively farmed.

With the continuing financial pressure on the farm community, changes to the direct farm loans programs were made in August, 1984 to improve farmer access to operating credit, alleviate cash flow problems and reduce interest costs. The changes included a reamortization of arrears on ADC direct farm loans up to $50,000 per family farm, provided a profitable farm plan could be developed. For those whose five year renewal date was before April 1, 1987, the interest rates for years 6 and 7 were set at 9 per cent and in November, 1984, this was extended to the Beginning Farmer Program as well.

In 1986, the Beginning Farmer Program and the Part A and Part B loans were consolidated into a single program called the Developing Farmer Program. Its purpose was to assist producers in the development and maintenance of viable farming operations. Loans to qualifying farmers were now made at 9 per cent interest for the life of the loan. The limit on assets was raised to $500,000, while

the limit on net worth was raised to $250,000. Beginning farmers were still eligible for a 3 per cent incentive rebate for the first five years of the loan and were now allowed full-time off-farm employment for the first four years. To qualify, they were required to have at least 20 per cent equity.

Guarantee Programs

In addition to the direct loans, ADC also operates a number of guarantee programs designed to assist farmers in getting non-ADC loans. The Alberta Farm Development Loan (AFDL) makes up the major portion of the ADC's guarantee programs. Here ADC guarantees financial institutions against loss of principal and interest to a maximum of 10 per cent of their total loan portfolio under the program. The commercial lender determines the creditworthiness of the borrower and, because of the guarantee, the rate is more favourable than might otherwise have been available. From its inception in 1973 to 1985, the program has had an overall loss experience of one quarter of one per cent.

A variation of the AFDL is the production incentives program. It pays the farmer an interest rebate of up to 7 per cent to improve resource use or productivity of specific segments of agriculture (Range and Soil Improvement Program, the Sheep Producers Incentive Program and the Vegetable and Potato Storage Program).

The widespread drought of the summer of 1984 left many farmers with extremely poor cash flows and little hope of finding enough money to put in a crop in the spring of 1985. The Farm Development Guarantee Program was introduced in January 1985 to help those farmers who had the potential to return their farms to a viable operation to get operating capital and is available only where workout plans identify how it can be serviced. Farmers wishing to use the program must be willing to accept counselling.

After another year of drought, the guarantee program was made more accessible in 1986, by making loans available directly from commercial lenders. The creditor processed the loan and made the lending decision under a general guarantee agreement with ADC.

Enterprise Counselling

As the farm financial crisis deepened during the early 1980's, the ADC's Board and management recognized that credit was the key to productive and efficient agriculture. The rapid escalation in the use of credit meant many farmers had to cope with a new frontier in farm management and some assistance in financial management would be required. The Enterprise Counselling program was created to provide that assistance.

The program is available to all farmers experiencing financial difficulty regardless of assets or net worth. The program uses counsellors to work on a one to one basis with producers. The counsellor analyzes all financial and production aspects, works with the farmer to develop a detailed workout plan, including an implementation schedule and assists, if need be, to reach an understanding with creditors. Emphasis is placed on considering all the alternatives in arriving at a solution in the best interests of the farmer.

Agribusiness Loans

Secondary industry development has long been perceived as providing diversified, solid, market-driven growth in the agricultural sector of Alberta. However, problems relating to commodity cycles, quotas, transportation, labour, technology, regulations and the policies of the federal and other provincial governments have delayed this development. As a result, during the decade ending in 1980 (a period of strong growth in the economy), the number of food and beverage manufacturing establishments declined by about 20 per cent to less than 400 although employment rose by about 30 per cent to about 17,000. For the same period, the value-added production of Alberta's food and beverages sector grew at a rate about two- thirds that of the total provincial manufacturing sector and only about half the rate of the provincial Gross Domestic Product.

The original mandate of ADC included the requirement to expand the processing of agricultural products within Alberta. By providing these services, rural centres could be helped in becoming more viable. Some of the prime objectives were to expand agricultural product processing, to increase the market potential for farmers, to provide necessary services to primary producers and to diversify the economy through value-added activity. The hope was that ADC would be the primary means by which a market-driven agriculture would be developed within the province. However, the provision of credit to agribusiness, though critical, has been a minor part of the ADC's total portfolio.

Agribusiness lending through ADC was originally restricted to loan guarantees but was later expanded to provide direct loans to developing agribusiness firms that could not support commercial credit terms. Loan rates were at 15 per cent for a five year term with a three per cent incentive added to the program in 1985. In 1986, further modifications were made to the ADC agribusiness loan program. Incentive interest rebates were eliminated and interest rates were set at 11 per cent for a five year term.

Other lenders are involved in agribusiness lending. An agreement also exists between the ADC and the Alberta Opportunity Company separating areas of interest in agribusiness lending.

CHAPTER 1

ISSUES IN AGRICULTURAL FINANCE

ISSUES IN AGRICULTURAL FINANCE

INTRODUCTION

In structuring its report, the ADC Review Committee has taken the approach to first **identify** the various issues which are of concern to the agricultural industry. Then, throughout the remainder of the report and by means of the final recommendations, the Committee has specifically **addressed** those issues which are associated with the current problems. The Committee is convinced that the present agricultural finance problem can indeed be solved.

The intent of this chapter is to identify and describe specific issues raised during the process of the hearings, without necessarily providing comment on the validity of the statements. The statements by themselves are quite representative of the industry consensus. The Committee obtained many excellent submissions from a wide variety of participants including producers, bankers, lawyers, financial counsellors, peer groups, producer organizations, ADC personnel, the agri-business industry, minority groups, government officials and other interested parties. Many of the issues raised related to the involvement of ADC, since the majority of participants had specific interest in the operation and programs of the Corporation. An attempt has been made to eliminate strongly biased expressions of a personal nature.

The hearings were conducted at a time when a number of producers were under extreme financial pressure and their very survival was being threatened. Consequently these producers were interested in short-term solutions and considered long-term solutions to be less relevant. This group did not constitute the majority and many producers expressed points of view which did indeed have long-term implications.

Alberta producers in general are convinced that they will adjust to new world realities by applying better management techniques, by seeking new marketing opportunities and by diversifying their production activity. Producers in this province are confident that they can compete successfully with their counterparts from other provinces and other countries, given an equal opportunity.

The issues raised during the hearings are listed in three categories, not necessarily in the order of importance. **Opinions expressed are not necessarily the conclusions of the committee.**

- *General issues in agricultural finance.*
- *Producer perceptions of ADC.*
- *Agrifood industry issues.*

GENERAL ISSUES IN AGRICULTURAL FINANCE

■ *Government Involvement*

Fairness of Government Policies

The farming community is of the opinion that a government direct lending agency cannot show equal fairness and leniency to all parties in its lending and loan administration practices, while at the same time remaining a prudent financial lending institution.

Government Aid Programs

Farmers generally favored continuation of aid programs such as drought and disaster relief. A large number of review participants consider government commodity price support to be mandatory. The more successful producers stressed that the latter type of aid is in fact detrimental to the industry over the long run and may lead to a cheap food policy.

Involvement of the Alberta Heritage Savings Trust Fund

There is a misconception among farmers about the role of AHSTF. Many producers are of the opinion that funds have been used to assist other provinces at reasonable rates of interest, whereas Albertans have been charged high rates.

MLA Involvement

Producers expressed concern that any excessive involvement by MLA's during ADC loan application and appeal processes is detrimental and unfair to the majority of producers. It can create a perception of favoritism at the expense of prudent lending.

■ *Debt Related Issues*

Increased Debt vs Viability

There is a perception among some producers that additional debt can improve the viability of an operation. This school of thought is not prevalent among the more successful farmers.

Debt Moratorium

The suggestion of a possible moratorium on foreclosures was raised occasionally. Specific suggestions for fairness, timing and impact were seldom provided. Little support for a moratorium was evident.

Debt Limits for a Viable Operation

Producers generally submitted that a farm would not be viable if the debt to asset ratio exceeded 40%. It was suggested that such a high ratio would be acceptable only if the producer was an excellent manager.

Debt Relief

The suggestion was made to bring those loans, which are presently in arrears, up to current status by adding the arrears to the end of the loan, in fact re-amortizing the loan.

■ *Loan and Lending Practices*

The Role of the Banks

Suspicion was voiced that some commercial lenders may be withdrawing from agricultural lending, but specific proof was not provided. Some farmers suggested that lending should be left solely to the commercial lending industry. Most producers felt that banks were eager to lend, if repayment ability could be demonstrated.

Banks and Business Cycles

It was suggested that banks have a tendency to accelerate lending near the top of a market cycle and decrease lending near the bottom. Concern was expressed that this might lead to magnifying the cycles rather than smoothing them. Generally, the banks are considered to be responsive to changing needs and circum-

stances.

Commodity-based Loans

Producers concluded that some flexibility in debt service, including the availability of commodity based loans, would be desirable. However, they were not sure how this could be implemented without involving subsidies.

Lending to Productive Value

Many producers stated that the current problem in debt servicing is the direct result of financing based primarily on security value rather than on realistic servicing ability. Their opinion is that future loan approvals must be based more closely on productivity, operating viability and realistic projected cash flows.

Continuation of Low Interest Rates

The general perception is that lower interest rates might assist some farmers. However, a number of producers stated that even with interest free loans their operations would be in jeopardy, particularly in view of the weak commodity prices.

Alternative Methods of Financing

The need for innovative methods in financing was expressed. This included discussions on third party equity financing. Producers appear receptive to alternate financing arrangements, but few appeared to be well informed on equity financing. Leasing and flexible mortgages were also suggested.

The Farm Credit Stability Program

Producers commented favorably on the $2.0 billion initiative by the Alberta government to give 20 year stability to 9% interest rates for farmers. This support of the commercial lending system is seen as being appropriate for the times. However the program is too new to determine long range impact. Producers did indicate frustration with security requirements of the program and with the apparent lack of fairness by the lending industry to give all applications and/or accounts equal opportunity to participate.

■ *Land Issues*

Government Land Banking

General opposition was expressed to the idea of the government owning large tracts of land for the purpose of holding these lands for repurchase by farmers at a later date.

Personal Land Ownership

A number of producers still consider personal land ownership to be fundamental to their participation in agriculture. There is a growing realization among producers that personal land ownership may be desirable, but is not essential to the viability of a farm business unit.

Future Land Prices

With the present trend towards lower land prices there is renewed interest in land purchases.

■ *Business Management in Agriculture*

Farming as a Business

The majority of producers and producer organizations are convinced that the perception of farming is changing. More emphasis is being placed on farming as a business. There is a definite trend in the industry towards thinking in terms of "farm business units", operated and owned by either individuals, families or corporations.

Incentives for Beginning Farmers

Farmers stressed the need for continued and new incentives to assist the entry of young people into agriculture. These incentives should be tied into specific educational and other requirements, thereby starting the beginning farmer off on a realistic business basis. Other important attributes required in beginning farmers should be desire, general ability, ambition and commitment to farming.

Farm Financial Records

Farm financial records in general were seen to be inadequate for successful management. Farmers identified this as a major source of problems for many of their colleagues.

Financial Management Skills

Comments were made with reference to the need for improving farm financial management skills on the farm as well as within the lending industry.

Coping with Financial Uncertainty

In general, producers were unable to identify options on how to deal with the present financial uncertainty but did suggest that higher equity and lower debt levels would help to cope with the problem of low and variable income levels.

Supply Management

On a number of occasions it was suggested by producers that perhaps the time has come for supply management in commodities such as grain. There was a general consensus however, that supply management in the grains sector would require unacceptable massive reductions in production (80% for wheat).

Diversification in Agriculture

Production diversification and risk management is perceived as being important for survival, but no specific direction was provided by hearing participants. Many producers were of the opinion that switching from grain to livestock would only "make them worse off". Off-farm employment is seen as a realistic additional source of income. Some diversification opportunities were suggested, including on-farm manufacturing, hydroponic production, fish farming and specialty crop production.

■ *Other Issues*

Off-farm Employment

A large number of farmers need to supplement their income through off-farm employment. This creates stress in the family since this type of employment becomes, or at least adds to, the responsibility of the farm wife or children. A number of farmers suggested that the government should be made responsible for providing financial assistance to reduce the need for off-farm work. However most felt it was a modern reality and in some cases a matter of survival.

A Declining Farm Population

Most producers were of the opinion that some decline in the farm population was inevitable to allow for larger scale use of new technology.

Indians in Agriculture

Both native Indian and Metis organizations expressed concern that their members' inability to put up security in the form of land, prevents them from being eligible for long term loans from either provincial government or private lending agencies.

Cheap Food Policy

Producers expressed concern that too much government aid leads to a cheap food policy, placing undue hardship on the production sector of agriculture and leads to continued dependence on government programs.

Intergenerational Transfer

It would appear that the issue of intergenerational transfer of land is becoming less of a problem. The present difficulty in the agricultural economy has resulted in fewer farmers encouraging their offspring to choose farming as a career.

Income Deficiency

Based on the perception that current market problems caused by U.S. and E.E.C. subsidy programs will soon be rectified, some producers were of the opinion that the present difficulty in debt load servicing is primarily income related, and is not related to excessive debt levels.

PRODUCER PERCEPTIONS OF ADC

- ***ADC Personnel Issues***

The Perception of the ADC Board and Management

ADC borrowers perceive the members of the ADC board and senior management to be isolated from the realities of farming in the borrower's locality. This perception was more pronounced among participants from those regions furthest away from Camrose. Concern was expressed that both loan applications and appeals are being treated too impersonally.

Qualifications of ADC Management and Staff

ADC borrowers perceive that ADC staff, particularly at the field level, frequently appear to be underqualified in agricultural finance matters. The majority agree that the situation has improved somewhat in recent times. Many loans made during 1980/83 were identified as "weak loans" for the Corporation.

Staff Turnover

Many borrowers expressed concern over an apparent lack of continuity of loans officers. This has caused problems in dealing with ADC, particularly in respect of a clear understanding of individual farm circumstances.

Completion of ADC Applications

Several beginning farmers, under close questioning, indicated that ADC loans officers had tried very hard to make the application look more plausible, including the submission of inflated production and price figures, higher than the farmer was prepared to suggest. This could not be confirmed, as individual files were unavailable to the Committee. Other producers commented that when they showed real profit figures on an application, ADC officials would not believe the applicant and suggested that if the operation was that profitable, the applicant should go to the banks.

■ *ADC Programs and Policies*

Once-a-lifetime Lending Policy

Producers claim they were exposed to pressure by ADC to take advantage of the once-a-lifetime $200,000 loan limit. As a result many borrowers incurred loans beyond their immediate need and perhaps beyond the ability of some to repay or manage the debt. It was conceded that this effect has been lessened with a new policy of staging the loans, introduced in 1981 and adjusted in 1985 to allow three stages over six years.

The ADC Appeal Process

ADC borrowers are not satisfied with the present system of appeals. The centralized decision making process within the appeal system is considered to be cause for communication problems between ADC and its borrowers. Several indicated their displeasure with the fact that policy, administrations and appeal functions were all being carried out by the same people.

The Collections and Negotiations Procedure

The farming community is recommending more flexibility on the part of ADC. It perceives ADC as lacking in innovation and creativity with respect to the restructuring of loans. The farming community is not necessarily requesting write-offs or forgiveness. Loans officers are perceived to be more flexible than head office personnel.

Collateral and Security

Concern was expressed that the security requirements of ADC are too severe. Some producers indicated they had encountered difficulty recently in dealing with the banks because the ADC loan security was excessive and they had been unable to get security released to allow for added bank loans. The current increased requirements by ADC for greater farm experience and higher equity levels raised the question as to why ADC was necessary at all, if it followed the same criteria as the private lending institutions.

Women and Agricultural credit

The issue was raised of a farm wife not being eligible for a seperate ADC loan, while a common law or brother/sister relationship qualifies both partners as individuals. In addition, it was recommended that borrowers be made aware of how the rights of a spouse or a partner are affected when a loan is implemented or goes into default.

ADC Bureaucracy

The farming community is of the opinion that the response on loan applications has been far too slow. It also perceives ADC to be inflexible in dealing with specific situations which may occur on the farm. Centralized decision making policies within ADC are perceived to further add to the problems of bureaucracy. Many producers stated that more attention should be paid to individual accounts even if the account is in a current position.

ADC Program Followthrough

Producers were distressed that ADC had not maintained its standards in three areas:

1) *Payment of the nominal rate of interest to be current before getting the 6% or 3% incentive payment .*

2) *Financial reporting by beginning farmers to ensure that good information was on file with ADC .*

3) *The requirement for prior approval of capital purchases.*

Commodity Prices and ADC Policies

Several producers stated their suspicion that there was little co-ordination between ADC and the commodity organizations to gain better insight into the future profitability of a sector of the industry.

Communication of Policy Changes

Producers were often unaware of procedure and policy changes in ADC's programs. Many voiced opposition to a policy which was in fact changed 3 or 4 years ago, without their knowledge. Once informed, producers described policy changes as positive but much too late.

The Changing of ADC Requirements

Some successful operators cited that they had been turned down by ADC for a loan, first on the basis of insufficient equity, and then 2 to 3 years later, on the basis of too much equity or too many assets.

ADC Prepayment Possibilities

Some producers requested that a mechanism be placed in effect whereby prepayment of principal and interest could be made during a profitable year. This is an incentive to debt reduction.

■ *General ADC Perceptions*

Lender Responsibility

A substantial number of review participants were of the opinion that the availability of "easy money" from ADC contributed to the present financial situation. Producers suggested that the government should therefore assume responsibility for helping to alleviate the problem. However some farmers stated that the general public should never have to be responsible for bailing out the lender or the borrower if a bad deal was made.

Agricultural Development (AD) Committees

Many AD Committees made presentations at the hearings. Their major concern is that in appeal matters they are often overruled by the ADC board. The general consensus among producers is that peer groups such as AD Committees can be very useful, but the response was varied throughout the province.

Regional Issues

ADC programs were better understood and supported by producers in areas of recent land development. Many of these producers credited ADC with their successful entry into agriculture.

■ *Land Related Issues*

ADC as a Landowner

ADC and other lenders are not perceived as being satisfactory stewards of repossessed land. There is mixed opinion however as to what to do about the disposal of holdings. Some prefer a quick sale at whatever price the market will bear while others encourage a more cautious approach. Some expressed concern that a quick wholesale type sale might be considered "dumping" and might negatively affect land prices and the ability of financially stable farmers to borrow from the banks.

ADC Lending Policies and Land Prices

Borrowers were of the opinion that in many areas of the province, subsidized credit forced an additional escalation in land prices during the early 1980's by providing credit for buyers who would not otherwise have been in a position to bid on land.

First Right of Refusal

With reference to land quit claims, those ADC borrowers who considered that they were in financial difficulty, suggested that they be allowed to "quit claim" with the option to lease back or the first option to repurchase the land at a later date. Others argued that this would constitute unfairness, particularly with reference to other potential buyers, including future beginning farmers.

Delayed ADC Land Sales

Several cases were cited where ADC approval of a sale was needlessly delayed, causing a buyer to withdraw and eventually bid and buy at prices lower than offered originally.

The Effect of Interest Changes

Currently many ADC loans are currently moving from the 6% interest category to the 9% category. This is a result of the high level of lending during the 1979/83 period. Many producers claimed this change in interest to be their largest expense and the effect would put them into a non-current position.

The Future Role of ADC

Producers were not agreed as to the need for ADC to continue as a corporate entity. They did however feel strongly about the continuation of some of its programs, in one form or another, specifically the Beginning Farmer Program.

Some producers suggested it might be possible to continue ADC's lending programs through the commercial lending system. The latter suggestion was not necessarily shared by producers from areas which were being newly opened or where there was a lack of competitiveness between the financial institutions.

AGRIFOOD INDUSTRY ISSUES

Government Agribusiness Leadership

The industry expressed concern, that in spite of the positive contributions to agribusiness made by various government departments and agencies, there is no identifiable group which provides the singular leadership and coordination function necessary in the industry's development. ADC as a lender of last resort was not influential enough to cause development to take place. Programs for business development in the agrifood sector were described as fragmented.

Restraints to Development

The most pronounced obstacle to agribusiness development is the dual price system for grain sales within the Canadian Wheat Board (CWB) area. This places the purchase of domestic grain for domestic food processing at a distinct disadvantage.

Marketing and Market Promotion

The largest potential for Alberta processed products would appear to lie in the U.S.A. and international markets. An increased share of the national market may be required while pursuing international markets.

Agrifood Process Research

The industry has identified the need for more research and development, in marketing and processing, as being major issues.

Requirement for New Investment Capital

Suggestions have been made that nearly $2.0 billion of new capital is required to facilitate development and to capture a satisfactory share of the marketplace. Investments will need to be made on the basis of expecting returns over the long term.

Innovative Action in Agribusiness

The industry has identified opportunities for niche and specialty marketing in various areas of the Pacific Rim and the Western U.S.A. Innovative methods of marketing and production are required, to be implemented in a well co-ordinated and well financed fashion. This may require grants and risk capital enhancement.

Farm Supply Industries

Several presentations indicated that equipment dealerships and farm suppliers were in difficulty due to current income problems experienced by producers. Though several businessmen felt that the programs for farmers should extend to these related businesses, most were reluctant to give up any competitive opportunities to qualify for special assistance. It was felt that continued deterioration of dealerships and parts availability could begin to affect farm production.

ADC as an Agribusiness Lender

The opinion was frequently expressed that ADC has not been an aggressive agribusiness lender over the past six years and followed a policy of high interest rates and inflexibility in lending practices.

Commercial Lenders and Agribusiness

Commercial lenders were found, in general, to be supportive of the industry and aggressive in their lending activity. However, concern was expressed that the commercial lenders appeared too eager sometimes to facilitate an approach to ADC for funds, rather than study and fund the proposal themselves. No conclusive proof of this was provided.

CHAPTER 2

AGRICULTURAL FINANCE IN ALBERTA
THE CURRENT ENVIRONMENT AND FUTURE PROJECTIONS

AGRICULTURAL FINANCE IN ALBERTA

THE CURRENT ENVIRONMENT AND FUTURE PROJECTIONS

The Committee submits that successive income problems, which have characterized the agricultural industry over the past decade, are symptomatic of an underlying structural fault. After high inflation and negative real rates of interest, the resulting debt level has created a substantial fixed cost overhead on many Alberta farms. This overhead cannot be sustained in the long run as commodity prices fluctuate, as droughts devastate whole districts, as inputs become costly, and as trade problems obliterate market opportunities.

Year		**Specific Problem**
1975/78	-	Liquidation of the cattle and hog industry.
1979/80	-	High rates of inflation on input costs, high real rates of interest.
1981/83	-	Liquidation of the livestock industry, high interest rates.
1984/85	-	Severe drought affecting crops and pastures.
1986/	-	Low grain prices.

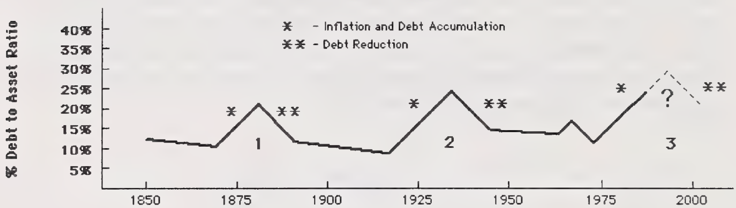
Any stress on producers, due to lack of income, will continue to affect the viability of farming, as long as the fixed costs of operating prevent the producer from significantly adjusting production costs.

The intent of this chapter is to provide data on the current and projected environment in agriculture. This includes information on producer income, producer debt loads and debt service capability, the agribusiness climate and projected commodity market trends.

There is ample evidence that the world economy and particularly agriculture, is susceptible to long-term cycles. Research[2] has identified long-term economic cycles of 45 years to 60 years in duration.

Two distinct and relatively "recent" long-term cycles have been identified in agriculture, 1930/40 and 1880/90, both of which were characterized by significant changes in the industry "debt to asset" ratios. In both cases the debt to asset ratio increased to a level exceeding 20%, followed by a period of lower income levels and a period of debt reduction, until the debt to asset ratio once again declined to more traditional levels of between 10% and 15%. These cycles are illustrated in figure 2.00.

Figure 2.00 - Historical Trends in Agriculture
(Debt to Asset Ratios)



Source: ADC Review Committee, 1987

A number of observations can be made with reference to these historic trends.

- *The cyclic changes have been of such force that they could not have been stopped by even the grandest of public support schemes.*

- *The present debt to asset ratio has risen to a near record level of 25% and there is a strong possibility that agriculture is in a period of adjustment.* ***The Committee is convinced that the structural problem in agriculture cannot be alleviated through a series of untargeted income subsidies.*** *It can only be alleviated through improved equity ratios, to enable producers to withstand the risks of farming and marketing in an open and competitive world market. A healthy agricultural industry will again become a reality, once the industry debt to asset ratio is reduced to a level in the 14% to 17% range.*

- *Government involvement during downtrends has often been wrongly placed, inhibiting adjustments through debt reduction. Measures should have been applied to facilitate the adjustment process, not to sustain unrealistic income levels.*

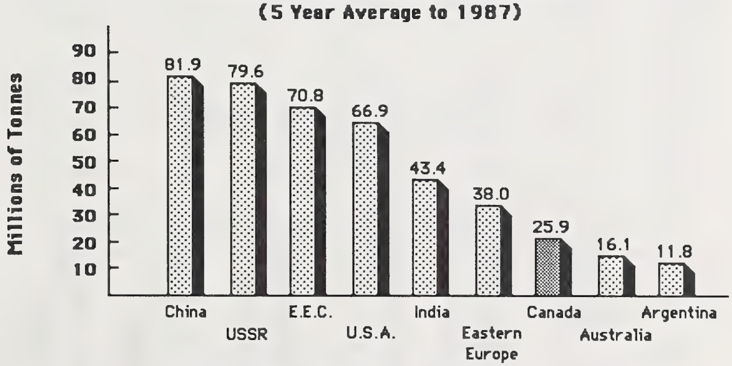
- *The downtrend during long-term cycles has been accompanied by declining land values, declining commodity prices and declining debt levels although interruptions due to wars and crop disasters have altered the trends for short periods of time.*

TRENDS IN THE COMMODITY MARKET

At one time Western Canada was referred to as the bread basket of the world. Although this reference is still used occasionally, the facts no longer support the statement. The very countries which once were Canada's largest customers for grain now have become either exporters themselves or are at least self-sufficient in grain production. Canada is clearly a price taker, not a price setter. [3]

Currently, Canada ranks seventh as a wheat producer and accounts for only 5 percent of world production.[3] China, on the other hand, has become the largest producer. A number of the larger producers are identified in figure 2.01.

Figure 2.01 - World Wheat Production
(5 Year Average to 1987)

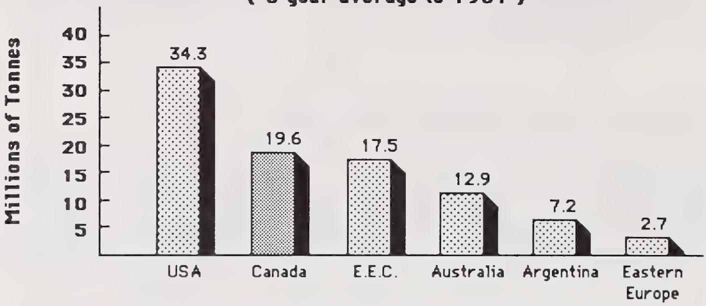


Source: E.B. Anderson, Alberta Agriculture, 1987

When the wheat export picture is examined, as illustrated in figure 2.02, it is observed that the largest market share is held by the U.S.A. The U.S. agricultural economy will continue to have a substantial effect on grain prices. When the U.S.A. in 1984 initiated its "Payment-in-kind" (PIK) program, higher grain prices resulted. However, production also increased worldwide and commodity prices dropped again significantly as large inventories of grain were established.

It is anticipated that grain inventories will remain high over the next two to three years. Many economists believe that wheat prices in fact will drop another 25% to 30% and that commodity prices in general will not stabilize until 1990. In the mean time, government agricultural subsidy policies in the U.S.A. and the E.E.C.

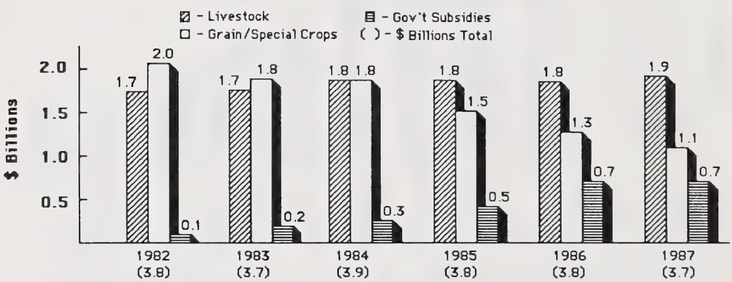
Figure 2.02 - World Wheat and Flour Exports
(5 year average to 1987)



Source: E.B. Anderson, Alberta Agriculture, 1987

are putting pressure on Canadian governments to follow suit. The level of farm subsidies per taxpayer in Canada is comparable to that of these other countries. Until the subsidy and inventory problems are solved, grain prices could remain depressed.

Figure 2.03 - Alberta Farm Income By Enterprise
(Total Cash Receipts)



Source: ADC Review Committee, 1987

Although cattle and hog producers have enjoyed rising prices recently, estimated farm income statistics indicate that producers have not yet significantly adjusted their income through diversification to livestock production, as shown in figure 2.03. While grain production income has declined, income from livestock production has remained relatively stable. The primary reason that the total income from farming has remained steady is due to adjustments in government assistance.

THE RISK OF FARMING

Returns on Investment

Farming is essentially a high risk business. Variable weather, markets, interest rates, government policies and trade conditions, combined with fierce competition for the consumer dollar and narrow profit margins make it a unique industry.

One of the objectives in farming is to generate a reasonable level of return on investment, while at the same time keeping the amount of risk at a minimum. This is not always possible and as shown in table 2.00, the average income of farmers varies widely. Some do not generate a return on investment.

Table 2.00 - Estimated 1986 Returns on Alberta Farm Invesment

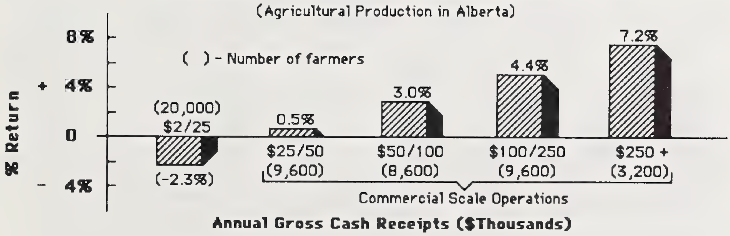
(Estimates prepared by Agritrends Research Group, 1987)

Gross Cash Receipts($)	Number of Producers	Average Farm Size (Acres owned)	Average Investment($)	Estimated Average Net Income* ($)	Return on Investment by Producers with debt	Return on Investment by Debt-free Producers
2,000/ 24,999	20,000	180	145,000	(3,300)	(2.3%)	(0.3%)
25,000/ 49,999	9,600	450	293,000	1,560	0.5%	2.5%
50,000/ 99,999	8,600	640	480,000	14,560	3.0%	4.7%
100,000/ 249,999	9,600	1,000	725,000	31,850	4.4%	6.6%
250,000 +	3,200	1,800	1,500,000	108,750	7.2%	10.3%
74,500 average	51,000	600	421,500	14,450	3.4%	6.2%

* After debt service, depreciation and government payments. Off-farm income not included and living expenses not deducted. Total 1986 net income is made up primarily from government aid.

Figure 2.04 - Return On Capital Investment (1986)

(Agricultural Production in Alberta)



Source: ADC Review Committee, 1987

The following information can be extracted from the data presented in figure 2.04 and table 2.00.

- *The larger farms are obviously the most profitable operations.*

- *The group of 20,000 farmers, who annually gross less than $25,000, has little potential of making a profit, at least not from grain production. Even if gross cash income were to return to 1981 levels, this group, on average, would have little potential of a positive return on investment. Many of these producers can be classified as hobby farmers.*

- *Given that the average farm family requires $18,000 in annual subsistence, it is quite evident that a large number of Alberta producers need to supplement income levels through off-farm employment. A recent survey indicates that reasonable living expenses may exceed $18,000.*

Distribution of Debt and Income

The estimated distribution of the 1986 agricultural debt in Alberta of $5.38 billion, is detailed in table 2.01. This near record level of debt is currently a major problem in agriculture. During the period of economic growth in the early 1980's, credit was relatively easy to obtain, particularly in view of increasing land values. As far as the lenders were concerned, even if a loan was a poor risk, rising security values would compensate the lender for losses in the event of a loan default. Many farmers believed that land values were about to increase to excessive levels. Many increased their debt load in order to buy land, which some feared might not be available for purchase at a later date. Purchases were made on the basis of capital gain rather than on the basis of productive capability.

Table 2.01 - Debt Distribution among Alberta Farmers (1986)

(Estimates prepared by Agritrends Research Group, 1987)

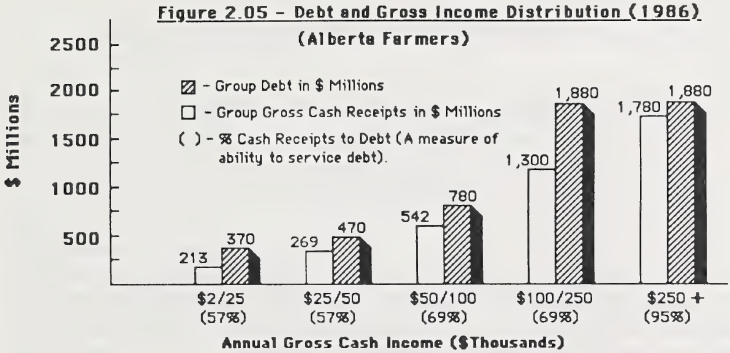
Gross Cash Receipts($)	Number of Producers	Number with Debt	Total Assets ($ Billions)	Total Debt ($ Billions)	Average* Debt	Industry Debt/Asset Ratio
$ 2,000/ 24,999	20,000	9,000 (45%)	2.90	0.37	41,000	12.8%
25,000/ 49,999	9,600	5,760 (60%)	2.70	0.47	82,000	17.4%
50,000/ 99,999	8,600	6,970 (81%)	4.10	0.78	112,000	19.0%
100,000/ 249,999	9,600	8,640 (90%)	6.90	1.88	218,000	27.2%
250,000 +	3,200	2,976 (94%)	4.80	1.88	630,000	39.2%
74,500 average	51,000	33,346 (65%)	21.50	5.38	161,000	25.0%

* Average among those having debt.

Average land prices indeed reached an all time high of $800 per acre. Then commodity prices dropped, income levels decreased, and the problem of debt service became prevalent. Nearly 20% of the total industry loan portfolio has fallen into arrears since 1983, primarily due to the inability of producers to make respective interest and principal payments.

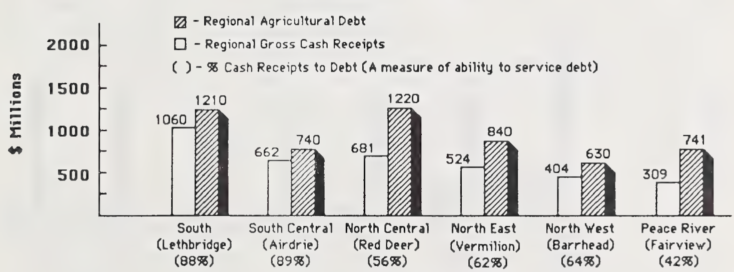
The estimated distribution of debt by gross income and by region has been illustrated in figures 2.05 and 2.06 respectively.

Figure 2.05 - Debt and Gross Income Distribution (1986)
(Alberta Farmers)



Source: ADC Review Committee, 1987

Figure 2.06 - Approximate Distribution of Debt and Gross Income by Region (1986)



Source: ADC Review Committee, 1987

A number of observations are made with reference to data presented in table 2.01 and figures 2.05 and 2.06.

- *The greatest proportion of the debt load is carried by producers in the higher income brackets. This group also has the highest debt to asset ratios, but has the highest cash receipts, especially evident in livestock finishing operations with high inventory turnover.*

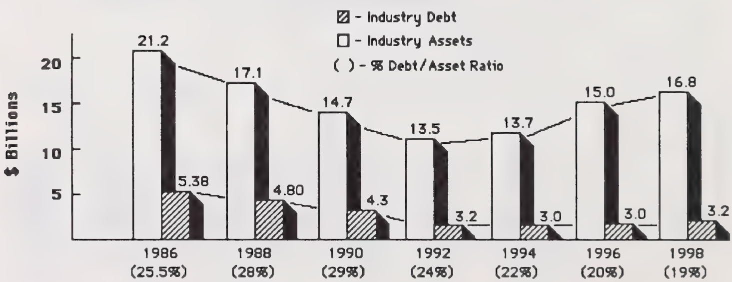
- *Producers in the northern regions will continue to experience the most difficulty in servicing debts. The distribution of total debt by region is assumed to be in approximately the same proportion as the distribution of ADC debt.*

- *Nearly 35% of Alberta farmers have no debt. Producers in the lowest income bracket represent the largest number of debt free operations.*

- *In excess of 95% of the total 1986 gross cash revenue is generated by producers who annually gross in excess of $25,000. These 31,000 producers are referred to as commercial-scale producers. The Committee has focused much of its attention on this group of farmers. This group is also responsible for carrying 93% of the total debt load.*

In view of the current decline in asset values, it is expected that the industry debt to asset ratio will continue to climb. To facilitate a reduction in this ratio, the outstanding debt portfolio must decline at an even greater rate than asset values. Projected debt and asset totals are detailed in figure 2.07. A debt to asset ratio of 30% will probably be realized before there is a significant downward trend.

Figure 2.07 - Projected Trends in Debt and Assets *
(Alberta Agricultural Producers)



Source: ADC Review Committee, 1987

* All projections are in 1986 dollars

THE PROBABILITY OF SURVIVAL

The Committee has adopted a special method for estimating the financial stability of the 31,000 Alberta commercial-scale producers, taking into account two basic financial indicators.

(1) **The Debt to Asset Ratio (DAR)**

$$DAR = \text{Liabilities}/\text{Assets}$$

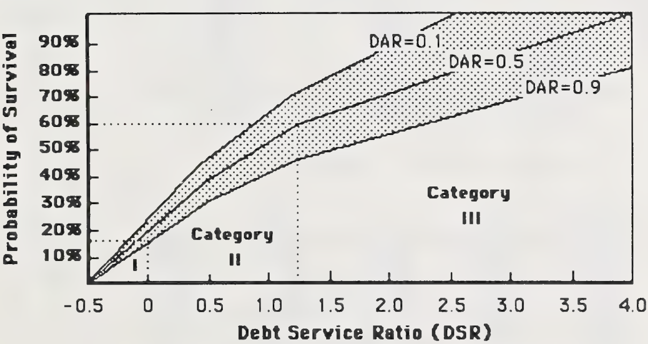
(2) **The Debt Service Ratio (DSR)**

This ratio is an indication of how well a producer is able to service the debt load.

$$DSR = \frac{\text{Net Farm Income} + \text{Off-farm Income} - \text{Personal Withdrawals}}{\text{Annual Interest and Principal Payments}}$$

The approximate relationship between the probability of survival and the DAR and DSR factors is shown in figure 2.08 and used to establish three separate categories of financial stability.

Figure 2.08 - Probability of Survival in Agriculture



Source: Agritrends Research Group, 1987

■ **Category I - Practically Insolvent**

Operations in this category are considered practically insolvent and have a probability of survival ranging from 0% to 15%. As illustrated in figure 2.08, an operation with a DSR of (-)0.1 and a DAR of 0.9 would have approximately a 5% chance of survival.

■ **Category II - Financially Stressed**

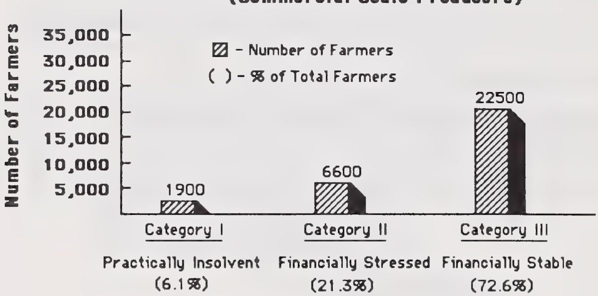
This category contains farming operations which are exposed to substantial financial pressure and have a 15% to 60% chance of survival, given their DAR ratio ranges between 0.3 and 0.7.

■ **Category III - Financially Stable**

Operations in this category normally are under little financial pressure. These operations have an excellent probability of survival, averaging 80%. At lower DAR ratios, from 0.1 to 0.3, their chances are even better.

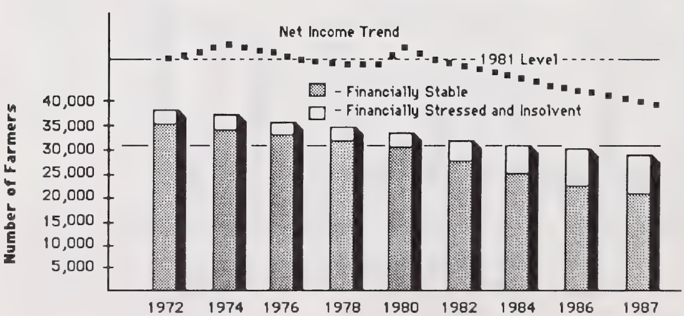
Data pertaining to the financial status of the 31,000 commercial scale farmers in Alberta is detailed in figure 2.09.

Figure 2.09 - Financial Stability of Farmers in Alberta (Feb., 1987)
(Commercial Scale Producers)



Source: ADC Review Committee, 1987

Figure 2.10 - Commercial Scale Farming Trends



Source: ADC Review Committee, 1987

As shown in figure 2.10, the total number of farmers operating on a commercial scale has declined over the past 15 years and since 1982 the number of farmers in financial difficulty has steadily increased. The latter group currently represents 27% of the 31,000 farm units which annually generate in excess of $25,000 in gross cash receipts. Reference should be made to the typical farm financial statements detailed in the appendices A to C.

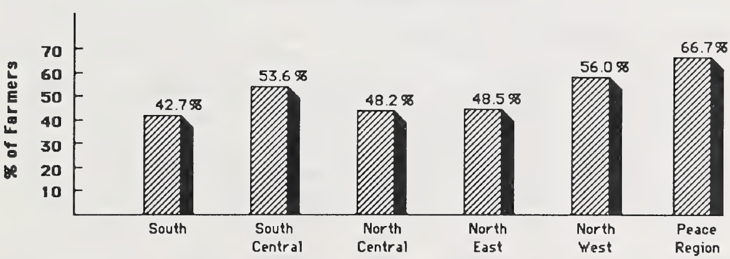
Financial problems are not limited to those producers facing a high probability of insolvency or foreclosure. Even within the financially stable group (Category III), net income figures have been reduced and distinctly different lifestyles have been necessitated.

The industry is beginning to make significant adjustments. Partly as a result of the consulting services available from financial institutions, Alberta Agriculture and the Farm Debt Review Board, and partly due to the success of direct negotiations with lenders, the estimated number of foreclosures has been limited to less than 2% in 1986.

OFF-FARM EMPLOYMENT

In view of the low incomes from farming, it is assumed that the majority of the 20,000 non-commercial scale farmers depend largely on off-farm employment to cover living expenses and/or debt payments. In addition, it is estimated that among the commercial scale producers, nearly 50% (or 16,000 farmers) find it necessary to supplement their income.[6] In previous periods, when problems were

Figure 2.11 - Off-Farm Employment by Region (1986)
(Alberta Agricultural Producers)



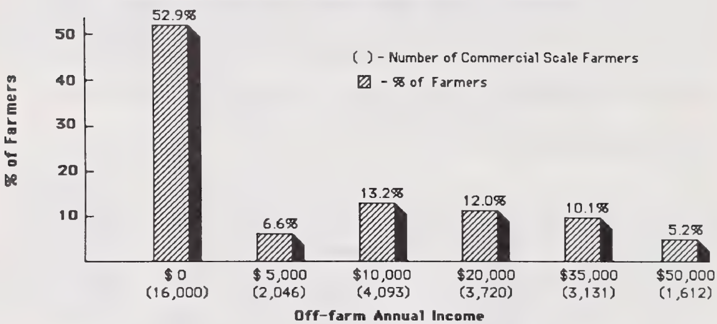
Source: Heffring Public Opinion Poll, ADC Review, 1986

encountered in crop production and marketing, producers relied heavily on diversified farm units, comprising cattle, hogs, poultry and dairy enterprises, as an alternate outlet for excess grain.

Off-farm employment is most common in the south central, north west and Peace River regions as shown in figure 2.11. The north west and south central regions contain large urban centres, which may be one reason for the higher off-farm employment statistics. Data shown in figures 2.11 and 2.12 is based on estimates derived from a Review opinion poll conducted by the Heffring Research Group.[6]

As shown in figure 2.12 the total earnings from off-farm income is quite substantial. It is unknown how much of this income is earned from employment versus investments.

Figure 2.12 - Off-Farm Income Among Commercial Scale Producers (1986)



Source: Heffring Public Opinion Poll, ADC Review, 1986

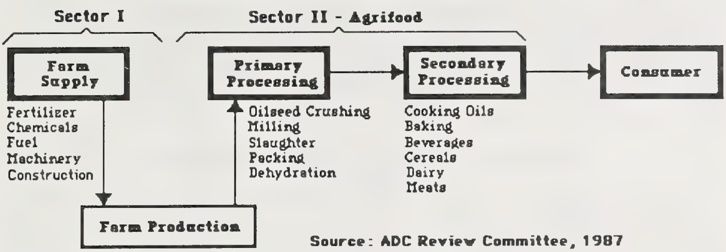
THE AGRIBUSINESS CLIMATE

The ADC Review provided an opportunity for the Committee to study the agribusiness industry and its interaction with the agricultural producers. Much of the concern expressed to the Review Committee centered on marketing problems for farmers. Paradoxically, the greatest public support to the entire agrifood industry has been directed at producers and the need to sustain high levels of production. This further heightens the marketing challenge in the province.

Agribusiness development and economic diversification have been stated objectives of governments and commodity groups for at least two decades. The results have, however, been disappointing. The producers of commodities are currently as dependent upon markets for unprocessed commodities, as they have ever been. With markets fluctuating wildly, farming in Alberta is at higher risk, higher than in regions where greater value-added processing takes place.

Figure 2.13 shows that the agribusiness chain is made up of two sectors: agrifood and farm supply. Each sector is discussed separately in this section of the report.

Figure 2.13 - The Agribusiness Chain

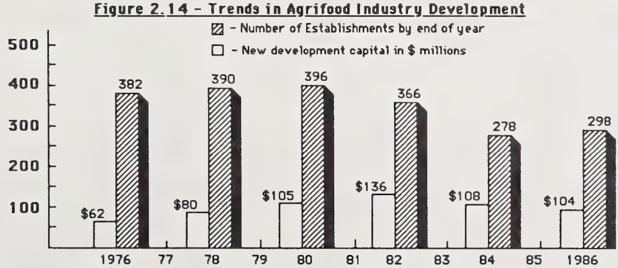


Source: ADC Review Committee, 1987

The Agrifood Sector

This sector constitutes a substantial part of the market for farm production. Processing of commodities involves the addition of value, through a combination of labor, packaging, marketing and changing raw material to edible form. Often the value added through processing, is many times the original cost of the raw ingredients. The sale of crops and livestock for further processing in Alberta contributed $1.7 billion of a total $3.9 billion in cash receipts or just under 45% in 1986.[1] This includes proceedsfrom the feedlot industry which in some studies is categorized as primary production. Without this sector the value added market probably represents less than 25%. This compares to an estimated 80% for Ontario producers and 70% for Canada as a whole. Much of the difficulty in Alberta has centered on the declining viability of livestock feeding and processing. In the past ten years the number of major establishments in meat processing has fallen to 50%, with aging facilities being closed. As shown in figure 2.14, the agrifood industry

Figure 2.14 - Trends in Agrifood Industry Development

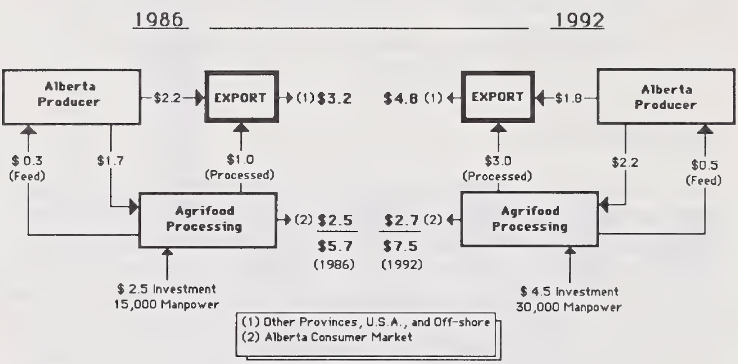


Source: ADC Review Committee, 1987

decline has been the most severe over the past three years. Both the number of establishments and the amount of newly authorized development funds have decreased. Labor costs also seriously affected the ability of some operators to compete on a North American basis and have inhibited new development from taking place in the province. With the passing of the era of full employment and with adjustments in the petroleum industry, labor availability and cost appears to be less of an impediment.

The agrifood industry has excellent potential for becoming the major market for farm produced goods. The Committee is convinced that under the right conditions, the agrifood industry could grow to utilize more than 55% of farmer produced goods by 1992.

Figure 2.15 - Goals for the Agrifood Processing Industry
($ Billions)



Source: ADC Review Committee, 1987

To realize a substantial increase in the export market for processed goods, as outlined in figure 2.15, an additional $2 billion of investment is required, over and above that needed to replace existing facilities and equipment. An investment of this magnitude will facilitate an increase of 40% in producer sales to the agrifood industry and in the process could create 15,000 new job opportunities.

The Farm Supply Sector

The farm supply sector is an important source of short and intermediate term capital for producers, referred to as trade credit. Outstanding credit can fluctuate as high as $500 million during any year. Much of this credit is provided on an unsecured basis and consequently the supply industry is seriously affected by the potential insolvencystatus of producers. This sector is preparing for a period of low profitability in anticipation of further cash flow problems by Alberta farmers.

Concern was expressed about the decreasing number of equipment dealerships and growing service and parts problems. Large equipment manufacturing concerns have been merging, consolidating and discontinuing certain equipment lines and programs. Consolidation and downsizing has been an economic necessity for this sector but further reduction will begin to affect the producers' ability to operate during crucial times of the year, if parts, products or services are unavailable. Equipment companies were identified by some producers as being overly aggressive in promoting and financing new equipment. Since new equipment sales have dropped dramatically, especially in the larger horsepower categories, some suppliers expressed concern about the aging and depreciation of the farm equipment line. The Committee found no evidence that this would soon create a farm production problem.

Some review participants were of the opinion that the supply business for farm fuels, chemicals and fertilizer is somewhat similar to a farm business and therefore ought to be assisted in an identical fashion. No consensus was apparent on this matter. The industry did recommend that existing government programs, such as the fuel and fertilizer rebate programs should be retained.

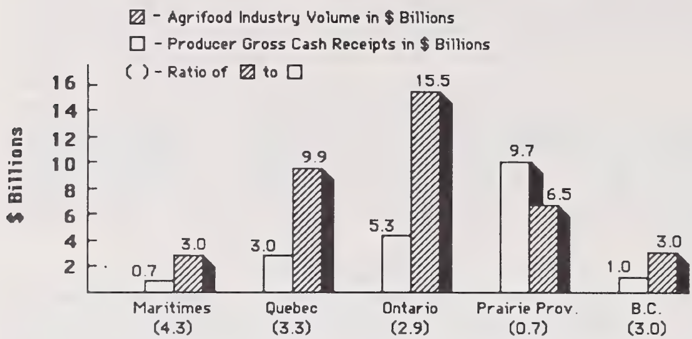
A need was identified with reference to credit extended by the farm supply sector. Often financing has been done in an unco-ordinated way, with lenders encouraging farmers to use trade credit where possible, leaving bank margins on inventory at higher levels. In assessing the need for operating capital, farmers and lenders should address the trade credit issue in an integrated fashion.

Expansion of local manufacturing and service capability is definitely desirable, particularly where potentially innovative products and services can be identified. One businessman expressed he encountered a great deal of difficulty in obtaining product development support to pursue a unique opportunity for local manufacturing. Significantly, few manufacturing concerns were aware of any provincial lending institutions mandated to assist in such financing.

Future Development of the Agribusiness Industry

The Committee is convinced that the major obstacle to further agribusiness development is not solely a lack of funds. **The major obstacle is related to unfair regulations and legislation**. Specific regulations have **prevented** the prairie provinces from competing fairly with other areas of Canada, with somewhat devastating results as illustrated in figure 2.16. Whereas in the prairie provinces the value of agrifood shipments represents 70% of the total producer cash receipts, in other areas of Canada figures of 300% to 400% are common. The Committee submits that if these unfair regulations were to be removed, funds for development would become more readily available.

Figure 2.16 - Comparison of Agrifood Processing Activity (Across Canada, 1986)



Source: ADC Review Committee, 1987

Two of the regulatory restraints of concern are:

(1) *An unfavorable pricing system for domestic food grain sales imposed on the Western Canadian agricultural industry through the Canadian Wheat Board (CWB).*

(2) *Direct payment of Federal Crow transportation subsidies to the railways rather than to the producers.*

Under the present CWB restrictions an Alberta processor pays high regulated prices for the purchase of local grain for domestic processing purposes. The processor may be required to pay the Thunderbay or Vancouver price even though the grain was purchased locally.

The Committee discovered ample evidence that both government agencies and the agrifood industry are anxious to enter a completely new era of agrifood processing development. New research is being encouraged. New development projects are being proposed and new investment funds are being attracted. One processor proposed the establishment of a special agrifood processing geographic area, tentatively named Nutrition Valley. Such an area would facilitate hi-tech research, production facilities and marketing outlets. Several new market opportunities have recently been identified and the projected costs of labor and development would appear favorable for further industry expansion.

Recommendations made at a recent symposium on the agrifood industry, focused on the issue of leadership. In spite of the individual efforts by various government departments, there is insufficient co-ordination, whereby all proposals and ideas of the industry and government can be channeled and promoted in an efficient manner. The industry perceives the various government programs to be fragmented. Efforts

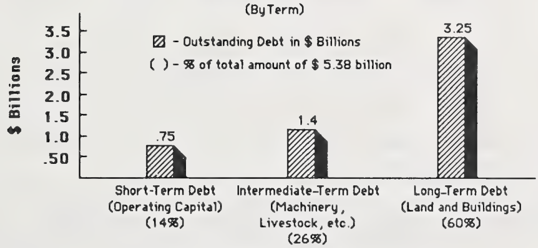
by Alberta Agriculture, the Economic Development ministry and other government agencies do not appear to be sufficiently co-ordinated to fully assist the industry to its potential. Along with the current regulatory restrictions, the absence of co-ordination within government appears to be of major concern to the industry.

The Committee submits that the timing is appropriate for the Alberta Government to address these issues. The resulting expanded producer markets and the increased employment opportunities are expected to make the effort worthwhile.

THE AVAILABILITY OF CREDIT TO PRODUCERS

As of August 31, 1986, the total outstanding debt in agriculture within Alberta is estimated at $5.38 billion, [5] made up of short-term, long-term and intermediate-term debt as illustrated in figure 2.17.

Figure 2.17 - Agricultural Debt in Alberta (1986)
(By Term)



Source: ADC Review Committee, 1987

Debt capital was provided by financial institutions, private sources and the agricultural trade, as shown in table 2.02.

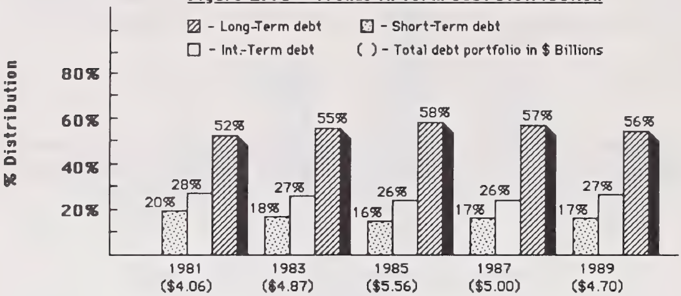
Table 2.02 - Estimated Distribution of Credit by Term (1986)

Source of Credit	Long-Term	Short-Term	Intermediate-Term
Chartered Banks	21%	75%	56%
Federal Government	21%	-	1%
Provincial Government	34%	-	5%
Credit Unions	10%	8%	14%
Insurance and Trust companies	-	-	1%
Private and supply companies	12%	8%	20%
Co-ops	-	4%	-
Other	2%	5%	3%
	100%	100%	100%

Source: ADC Background Paper, Deloitte Haskins and Sells, 1986.

The distribution of short-term versus long-term debt has changed since the early 1980's with the percentage of long-term debt increasing at the expense of short-term debt (Figure 2.18). One reason for this has been the availability of long-term capital at reasonable rates of interest. For the past three years long-term credit has often been used to capitalize operating losses.

Figure 2.18 - Trends in Term Debt Distribution

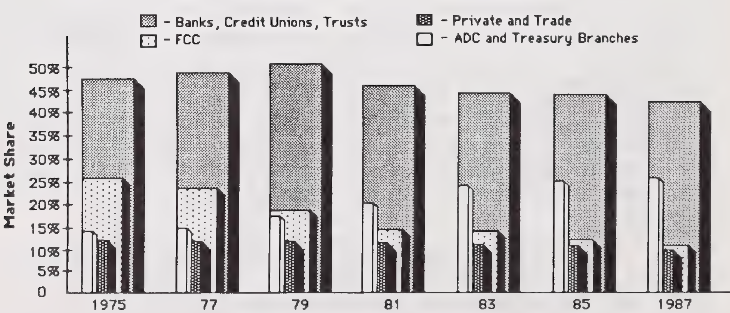


Source: ADC Review Committee, 1987

The need for long-term capital is expected to decline over the next 5 years as debt reduction activity increases.

The traditional market share held by various financial institutions is illustrated in figure 2.19. The share by the commercial institutions such as the chartered banks has remained relatively steady over the past 15 years. The commercial lenders have every intention to remain actively involved in agricultural credit.

Figure 2.19 - Alberta Agricultural Lenders



Source: ADC Review Committee, 1987

The Committee believes that the private sector of the lending industry, in addition to FCC and the Alberta Treasury Branches, will be interested and capable of meeting the needs of agriculture over the next 5 to 10 years. This sector is responsible for providing nearly $4.00 billion of the current $5.38 billion agricultural credit portfolio. Potentially up to $2.0 billion of this will be guaranteed by the Alberta Government, through the Alberta Farm Credit Stability Program. As of March 1987, in excess of $1.0 billion in guaranteed funds had been drawn down.

ALTERNATIVES TO DEBT FINANCING

The availability of capital is not limited to debt capital. There is evidence of a significant pool of capital savings within the rural community. Under proper market conditions or as a result of tax incentives, this capital could well become available for the purchase of land, from producers who presently are in financial difficulty. A substantial number of farmers sold land when prices were rising. Many are expected to re-invest their funds when land prices stabilize.

Equity investment is not always implemented through cash injection. For example, a financial institution holding repossessed land, may wish to inject equity into a farming operation by contributing land. Several options in fact are possible, as shown in figure 2.20.

Another alternate method of financing which is receiving increasing interest, is third party equity financing. Under this alternative, a third party invests equity capital into existing agricultural operations, reducing the debt load and assuming the risks of land ownership.

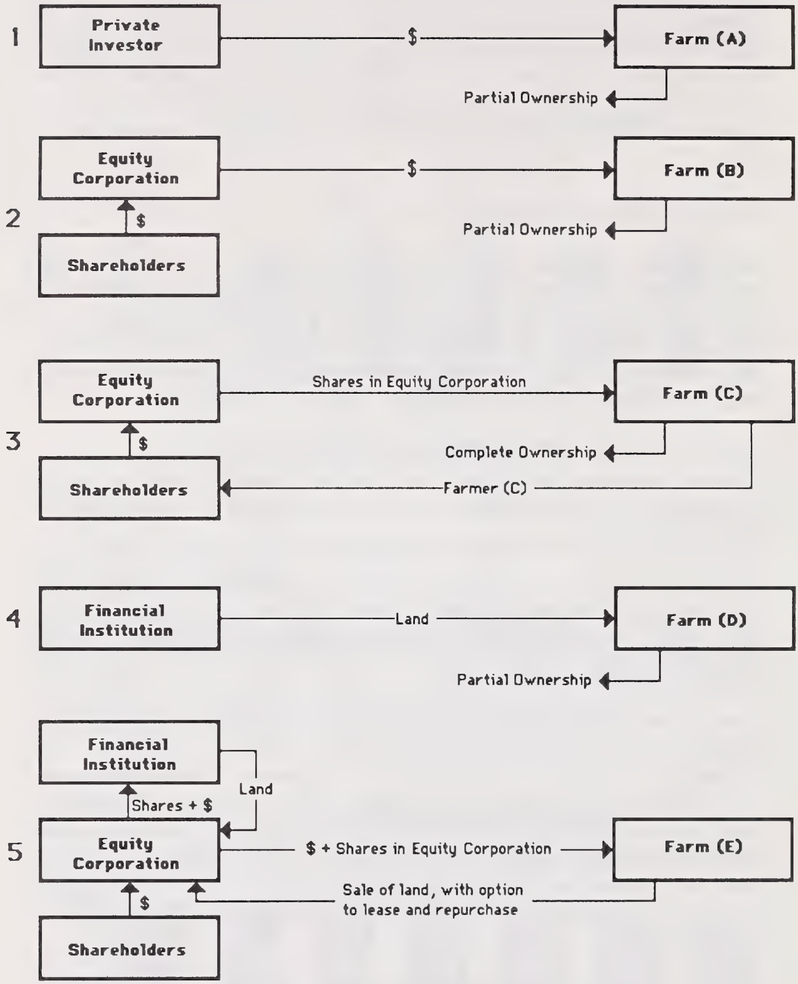
There are several studies underway in which equity capital would be accessed from the commercial capital markets and channeled into farmland. Under one such proposal being developed by FCC the equity corporation would invest private funds to liquidate the mortgage on a portion of the farm, returning cash, shares, a lease back agreement and re-purchase options in exchange for land ownership. This funding allows farmers access to non-debt capital, recapture land equity in a more liquid form and continue the farm operation under lower debt to asset ratios (#5 figure 2.20). It is particularly aimed at farmers carrying between 30% and 80% debt to asset ratios.

There are a number of factors which influence the potential success of equity investment within Alberta:

- **Return on Investment**

  Much of the land currently available for sale by lenders is of marginal production capability. Along with a declining farm income level the rate of return on the investment could be relatively low for the next few years.

Figure 2.20 - Alternate Methods of Equity Financing



Source: ADC Review Committee, 1987

To compensate for this factor special incentives may be necessary to attract potential investors.

- **Future Capital Gain Potential**

  The potential for future capital gain is relatively good. Although land prices are expected to decline until at least 1990, a return to higher land values seems inevitable. Currently some land is trading at values which can be sustained by production.

- **The Caliber of Farm Management**

  The success of a farm operation depends heavily on the caliber of the farm manager. Highly developed skills in marketing, operations and financial management are needed to succeed. Since few individuals can singularly provide all of the labor and management expertise, investors may be required to assist in these areas.

- **Participation by Existing Producers**

  Equity financing methods can only be implemented if producers are willing to participate. The Committee observed consensus among producers that the industry is at least willing to consider shared ownership and leasing of farm operations. It is well recognized that equity financing is potentially an excellent tool for debt reduction. Farmers are generally very competitive land buyers, accepting low returns for the ownership and security afforded. They will compete strongly with other equity investors.

SUMMARY OF COMMITTEE VIEWPOINTS

- *The Committee is convinced that producers will continue to be severely restricted in the adjustment of their operating costs until the issue of the near record debt level is addressed. In view of the high industry debt to asset level, it is anticipated that the industry will enter a period of adjustment characterized by debt reduction. A reduction from the current level of $5.38 billion to a level of $3.00 billion over five years is not unlikely.*

- *Income from grain production is not expected to increase until at least 1990 and no increases in grain prices are anticipated until the world grain inventory level is reduced significantly.*

- *The Committee has focused its attention primarily on the group of 31,000 commercial scale farmers. This group is responsible for 95% of the gross cash receipts and 93% of the industry debt.*

- *It is estimated that of the 31,000 commercial scale operations, 22,500 (72.6%) are financially stable, while the remaining 8,500 (27.4%) operate under various degrees of financial stress. At least 1,900 operations can be classified as practically insolvent and desperately in need of financial restructuring. It is estimated that almost 50% of Alberta's farmers need to supplement income levels from off-farm sources.*

- *Although the Committee submits that the excessive debt load is the primary problem to be addressed in agriculture, it nevertheless recognizes that the issue of farm income levels needs attention as well.*

- *The Committee further submits that the potential development for the agrifood industry offers an excellent opportunity for increased producer income. The agrifood industry presently constitutes 45% of the market for Alberta grown products. This market share can be increased significantly. Development of the agrifood industry will also result in increased levels of employment in both rural and urban areas.*

- *The farm supply sector of the agribusiness industry has been increasingly used as a source of credit. The Committee contends that commercial lenders and producers should only use this sector of credit if it is well integrated with other credit needs.*

- *The Committee strongly encourages the implementation of equity financing arrangements among Alberta producers. Equity financing is seen as an excellent tool for debt and risk reduction.*

- *With reference to the availability of agricultural credit, the Committee is of the opinion that the future needs of the industry can be serviced adequately by the established commercial lenders. The commercial lenders are not withdrawing from the agricultural credit market.*

REFERENCES AND OTHER READING

(1) *Statistics provided by Alberta Agriculture for use by the ADC Review Committee.*

(2) *Research performed at American universities based on original observations in the 1920's by Kondratieff, 1978/1987.*

(3) *Beyond the bin, the markets, the alternatives - Errol B. Anderson, Alberta Agriculture, Airdrie, Alberta, 1987.*

(4) *Emerging roles in financing agriculture - R. Ashmead, Farm Credit Corporation, 1986.*

(5) *Background report on debt and income in agriculture prepared for the ADC Review Committee - Deloitte, Haskins and Sells, 1986.*

(6) *Public opinion survey prepared for the ADC Review Committee, Heffring Research Group, 1986.*

CHAPTER 3

BUSINESS MANAGEMENT IN AGRICULTURE

BUSINESS MANAGEMENT IN AGRICULTURE

"If we treat farming like a business, it will result in a pleasant way of life. If we treat farming as a way of life, it will be a costly business."

FARMING AS A BUSINESS

Professor Mumey of the University of Alberta paid Alberta farmers a well deserved compliment, when he said:

> *"Many farmers seem to have evolved practices which are consistent with rational economic behavior. Experts of modest capability have little to add and it is easy to find examples of so called expert advice which is below the level of competence embedded in normal farm financial practice."* [1]

There is a definite new trend in the industry which would confirm the Committee's thinking that an increasing number of producers consider farming to be a business. Producers are beginning to think in terms of "farm business units", owned or operated by either individuals, families or corporations.

The Committee was frequently presented with "solutions" for the preservation of the traditional family farm. The family farm was projected as a way of life in which the husband and wife, assisted by the children, perform the many tasks associated with a diversity of small production enterprises, including milking, gardening, cropping, cattle feeding, raising chickens, etc. In the past, these

activities were pursued to make the family relatively independent and self-reliant. They also provided an additional source of income as products were sold to local residents of small towns.

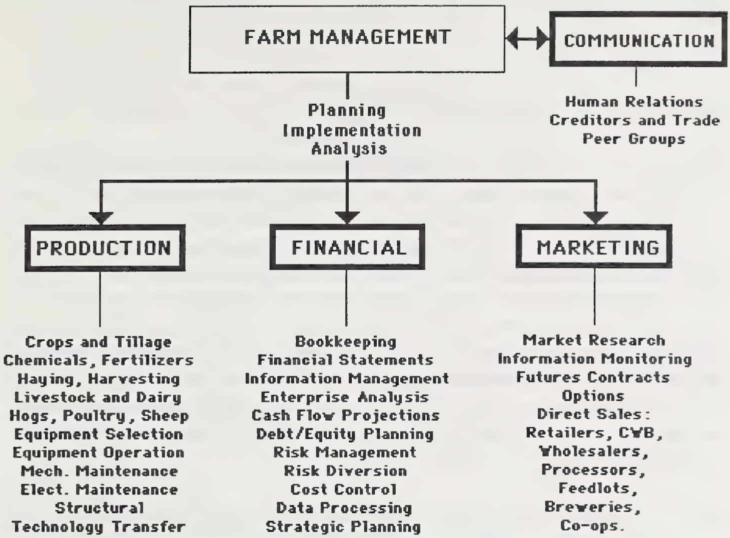
Many of these activities have been replaced by off-farm employment. In some cases both parents pursue off-farm careers or at least are supplementing farm income from off-farm sources. In this context, the family farm is being redesigned to fit the interests of a rural family needing greater disposable income for modern home conveniences, transportation, educational opportunities and recreational pursuits. In the future, a family operating a farm business will need to be more specialized and individual members will require unique and complimentary skills. The need for educational opportunities will be increasingly important to assist the modern farm family operation to remain competitive. The Committee believes that families will continue to make up the basis from which a majority of modern farm businesses are operated and that these families will adapt to the realities which are present in the operation of any business.

Farm business success, assuming success is measured in fiscal terms, is determined by the farmer's managerial ability. Farm management is concerned with the decisions which affect the profitability of the farm as a business, and consists of planning, implementation and analysis of how well the decisions have turned out in practice. In a background paper on risk management, prepared for the Review Committee, Prof. Bauer described the decision making process in farm business management as follows:

> *"The management of a farm business can be looked upon as the art and science of making decisions about the use of available resources and acting on those decisions in an uncertain world so that the short and long term goals of the business owner(s) are satisfied as fully as possible. This definition leads to an operational viewpoint which contains a number of steps. The first step is setting goals and objectives. These are done by the farmer and farm family as owners of the business. Performance is measured against goals with a view to detect problems and opportunities. Then there is a process of analysis and specifying possible ways of solving the problem or realizing the opportunity. Next comes the step of choosing a particular solution and implementing it. These steps of problem definition, solution and action are carried out by the farmer and farm family as manager(s) of the business. Finally there is the step of accepting the result and evaluating the consequences of the action."* [8]

As outlined in figure 3.00, farm management can be categorized into at least three areas of specialization: production, finance and marketing.

Figure 3.00 - Farm Management Profile



Source: ADC Review Committee, 1987

When a farm is relatively small, all of the above functions may have to be performed by a single individual. In view of this, one of the Review participants described the function of a typical farm manager as follows:

> *"Today's farmer has to be an agrologist, a stockman, a mechanic, a veterinarian, a carpenter, a welder, an electrician, a heavy equipment operator, a truck driver, a chemical specialist, a tax accountant, a financial specialist and soon a computer operator."* [3]

Expertise in all areas of business management is seldom found in a single individual, at least not to a level of sophistication required to efficiently run a large commercial-scale operation. On some of the bigger farms, separate individuals may have to be assigned to specific areas of farm management, such as finance or marketing.

There is however, still an apparent tendency by farmers to concentrate on production management at the expense of other management tasks. In order to retain control over costs and to ensure profitability of an operation, it is essential that farm management stay in constant touch with all aspects of the total management responsibility.

Throughout the remainder of this chapter specific management functions are described. In view of its mandate, the Committee has concentrated on financial matters in agriculture. Production management is therefore not discussed in detail.

FINANCIAL MANAGEMENT IN AGRICULTURAL PRODUCTION

Concern has been expressed by both producers and lenders, that farmers normally perform financial management functions primarily to keep records for the government and the banks, but not for their own business purposes. In spite of the reasonably high level of general management skills among producers, it is still apparent that many avoid involvement in financial management. The Committee believes that this severely affects the efficiency of Alberta farm operations. In fact it may be a reason why 80% of the gross farm cash income is earned by only 20% of Alberta producers. Financial counsellors claim that a large percentage of Alberta farmers do not know how to properly interpret a financial statement nor are able to prepare a realistic cash flow projection. Yet these items directly affect the viability and/or profitability of the farm. One of the producers at the hearings expressed his concern as follows:

> *"Farming is a business and farmers must be encouraged to develop accounting and cash flow projections that financial institutions are comfortable with. Farming is a business and farmers must be encouraged to develop long-term capital budgets which include machinery purchases. At the present time most farm equipment is bought on a crisis basis, when a machine has a major failure, or the farmer is faced with a big income tax bill and the purchase of machinery will reduce it.."* [4]

The term "financial management" should not be confused with "bookkeeping".Good bookkeeping practices are certainly part of financial management, but pertain to only a minor percentage of the total information required for financial management.

> *"The need for financial management, as opposed to simple bookkeeping, is often referred to as the requirement for success in the current farm financial situation."* [5]

Financial management is future oriented, while bookkeeping is a record of past and present trends. Financial management deals with profitability, solvency, liquidity, risk management, enterprise analysis, efficiency, cash flows, credit management, loan negotiations, income projections, risk diversification, equity financing, debt financing and income tax planning. Financial management, as an integral part of business management, has become increasingly more important in the operation of a farm, and has to a large extent displaced the early emphasis on hard physical labor as a key to successful farming.

During the 1970's and the early 1980's, both farmers and lenders could count on inflation to compensate for errors in financial management judgment. However, as income and equity declined, and expenses increased, the resulting low profit margins left little, if any, room for error. For the present and for the foreseeable future, financial management must receive priority. [6]

An applicable suggestion was made by the Working Group on Farm Finance for the First Ministers' Conference in May of 1986.

> *"Farm financial management skills (not only) of farmers (but) of their advisors (such as) lenders, lawyers, extension staff and accountants must be strengthened, recognizing that such skills will be a pre-requisite to the survival of low equity operations."*

If Alberta producers are to survive, substantially more individual emphasis will need to be placed on the application of financial management skills. Without development of these skills, producers will be hard-pressed to meet the management challenges of the next ten years.

MARKETING MANAGEMENT IN AGRICULTURAL PRODUCTION

The Committee has observed that many successful Alberta farmers pay a great deal of attention to product marketing. The application of marketing management should not be limited to livestock production, but must also be applied to grain production and other areas of the industry. One producer expressed this in the following way:

> *"We need to remember, as producers, that whenever we make a production decision, we've made a marketing decision. Think 'Sell!!' because we will have something to sell ."* [14]

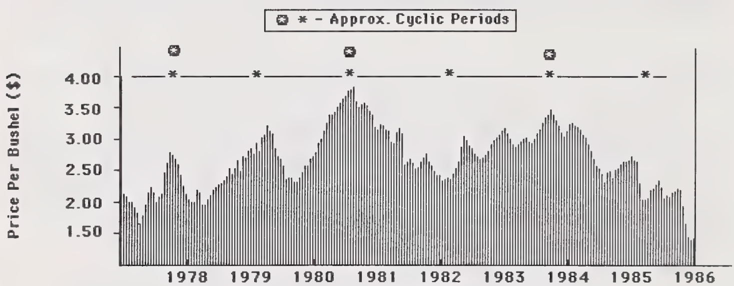
It would appear that, in the past, Alberta producers have perhaps been reluctant marketers and their view may have been that they would produce it and the professionals could market it. This point of view is rapidly becoming outdated and producers must become marketing oriented to grow and survive. One farmer stated that too much marketing has been done on a "greed and fear" basis. Other producers expressed concern that heavy marketing activity often takes place just before a major payment is due and is not planned over the long term. It is suggested that good marketing management may eliminate a substantial risk factor in the operation of a farm. It will certainly eliminate total dependence on the actions of others and inject a measure of long term stability to the operation.

Marketing management may, however, be a full-time job and perhaps should be delegated to specific individuals. Marketing management is not a routine

function, and requires substantial decision making and research. It requires a person with individual initiative and the marketing manager needs to become conversive with:

- *Government programs and changes in policy.*
- *Historic trends in product prices and their respective cycles.*
- *International trade policies.*
- *Local industrial trends.*
- *Predictions and forecasts in food supply.*
- *Options, hedging and futures contract arrangements.*
- *Plans and activities of local feedlots and agribusinesses.*
- *The need for products in the nearest urban location.*
- *The implementation of marketing analysis techniques.*

Figure 3.01 - Typical Corn Price Trends

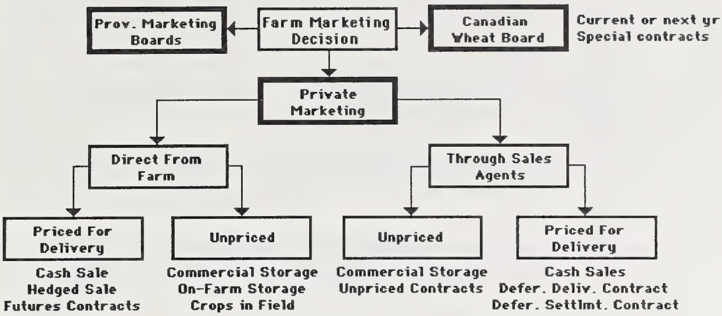


Source: USDA Statistics, 1986

Successful marketing management is both an art and a science. The scientific side of management allows the producer to collect and plot data such as illustrated in figure 3.01, while the interpretation of the data is sometimes an art.

As illustrated in figure 3.02, a number of market options are open to Alberta producers. The option will depend largely on management decisions to produce CWB or open market products. The Committee strongly recommends that Alberta producers place increasing emphasis on the application of good marketing techniques. Marketing management will indeed become a key element in the successful operation of commercial scale farms.

Figure 3.02 - Commodity Market and Pricing Options



Source: ADC Review Committee, 1987

THE MANAGEMENT OF STRESS

According to a study performed by the National Institute of Occupational Safety and Health, farm work has been identified as the tenth most stressful occupation among a sample of 130 occupations tested. This observation has been confirmed by a number of other researchers. [7]

Stress is caused by events and situations, some of which are listed in table 3.00. The source of stress can be either environmental or may originate from within the individual.

Table 3.00 - Causes of Stress in Farming

Financial problems	Other Problems
High debt loads	Fatigue
Loan defaults	Government policy changes
Problems with creditors	Inclement weather
Cash flow uncertainties	Family problems
Unexpected expenses	Isolation
Irregular income	Disease

The present situation in agricultural finance has caused a significant increase in the emotional stress level among Alberta farmers. Producers have made a number of suggestions as to how emotional stress, caused by financial problems, can at least be reduced. They noted that not all stress should be considered negative and a certain amount is indeed necessary for motivational purposes.

"Become thoroughly familiar with the financial status of the farm operation. Prepare a detailed balance sheet and set a goal for how you would like to see the operation's networth improved."

"Keep communication lines open, particularly with creditors. ***Take the initiative*** *in communications."*

"Freely discuss the situation with family members, personal friends and counsellors."

"Do not assume that creditors are fighting against you. Most of them simply wish to work out a solution to everyone's satisfaction."

"Do not let pride interfere with your judgment. There is no need to be ashamed to have financial difficulties in times like these."

"Where possible, use a non-partisan third party to settle differences with creditors. Employ financial counsellors, the Farm Debt Review Board, peer groups and personal friends."

MANAGEMENT OF THE DEBT RESTRUCTURING PROCESS

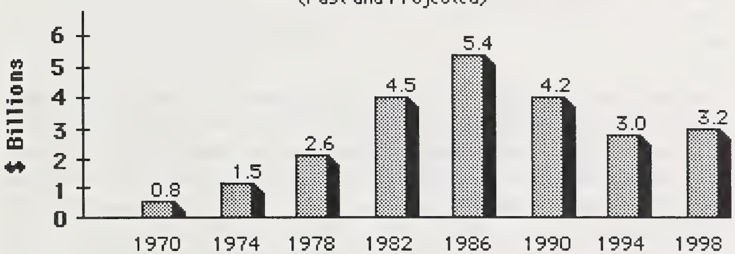
Agricultural economists generally contend that a farmer needs at least 70% equity in his farm to pay 12% interest and stay in business. Although interest levels have declined, it is probably safe to say that the minimum equity requirement is still near 70%. As of March 31, 1987, the industry figure for the entire province of Alberta is 75.0% equity, given industry totals of $21.5 billion in assets and $5.3 billion in liabilities. Many farmers, however, have less than 75% equity in their operations. It is estimated that as many as 5000 Alberta commercial scale farmers operate at a level lower than 25% equity. Some operate near zero levels, but under severe stress conditions. It is in fact possible to temporarily survive at the lower levels, but without expectancy of profitability and not without off-farm income and subsidies. The percent equity level, by itself, is not a good indicator of survivability as other sources of income may be available to the producer. Some low equity operations are able to survive because of reasonable off-farm generated income levels.

In view of the current and projected decline in income levels, particularly from grain production, it is becoming increasingly difficult for producers to adjust operating costs as long as the **fixed** costs of operations remain high. The fixed costs are determined primarily by the level of debt which the operation carries. Some producers have suggested that all debt payments should be temporarily suspended with interest payments capitalized and added to the loan principal.

Although this might provide short-term relief, the debt load will still have to be serviced from income and the total amount of debt would steadily increase.

The Committee suspects that grain production income may not stabilize for some time and, as such, any interest payment deferral practices would have to be implemented indefinitely. The Committee instead contends that the debt level among producers should be reduced significantly or put another way, that individual equity levels should be increased substantially. The Committee believes that the industry will in fact react in exactly such manner and that the industry debt levels will decline, not unlike the trend shown in figure 3.03. The estimated debt reduction is $2.0 billion by 1992.

Figure 3.03 - Farm Debt Trends in Alberta
(Past and Projected)



Source: ADC Review Committee, 1987

To achieve an industry debt reduction of approximately $2.0 billion, individual producers will need to reduce their debt levels as detailed in table 3.01

Table 3.01 - Recommended Minimum Debt Reduction by Producers
(Commercial scale Producers only)

Gross Cash Receipts($)	Number of Producers with Debt	Average Debt($)	Minimum Recommended Debt Reduction($) (by 1992)
25,000/ 49,999	5,760	82,000	35,000 (43%)
50,000/ 99,999	6,970	112,000	45,000 (40%)
100,000/ 249,999	8,640	218,000	80,000 (37%)
250,000 +	2,976	630,000	230,000 (36%)
	24,346		

The above figures are averages only. It may in fact be necessary for many producers to decrease debt levels by substantially larger amounts. The majority of the 24,000 farmers noted in table 3.01 will find it necessary to modify the financial structure of their operation.

With reference to financial restructuring, a number of options are open to the farmer:

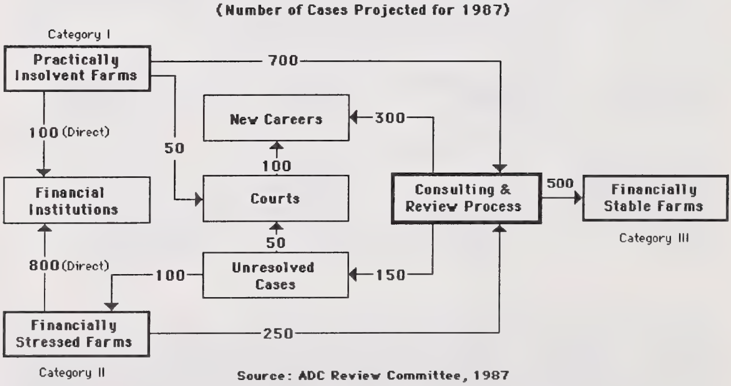
- *Direct negotiation with creditors.*
- *Assistance from a financial counsellor.*
- *A review by the Farm Debt Review Board.*
- *Legal recourse through the courts.*

Regardless of which option is exercised, the producer's aim should be to continue farming, but on an improved and financially stable basis. This may lead to farming on a reduced scale and may involve the leasing or renting of land for a period of time.

The results of current debt restructuring activity are encouraging and the estimated number of forced exits from farming in Alberta was less than 400 (1.5%) in 1986. In discussing the various aspects of financial restructuring, reference is made to the three categories of financial stability among Alberta commercial scale producers (See chapter 2):

Category I - Practically insolvent
Category II - Financially stressed
Category III - Financially stable

Figure 3.04 - The Debt Restructuring Process
(Number of Cases Projected for 1987)



Source: ADC Review Committee, 1987

Direct Negotiations with Creditors

This method is used largely by producers in Category II, while the line of communication between the lender and the producer is still reasonably open. The results of direct negotiations with reference to Category I producers are not always positive, and an arbitration process is more effective. On average, commercial lenders seem to have more success with direct negotiations than ADC or FCC. Lenders normally expect the producer to provide detailed financial plans and even a marketing proposal when appropriate. They are primarily concerned with the "3C's" of credit: character, capacity (to service debt) and collateral.

Negotiations through a Financial Counsellor

Since 1984, substantial activity has taken place in the area of financial counselling. Financial counsellors, some of which are professional agrologists with financial management skills or successful former farmers, may be retained directly by a producer, or may be retained through the Government of Alberta, through one of its lending agencies or through a commercial bank. The intent of the financial counselling service is to clearly identify areas of concern in the producer's operation and to examine various options for increased profitability, debt reduction and increased efficiency.

ADC presently contracts more than 60 individual counsellors through its Enterprise Counselling program. By December 31, 1986 in excess of 400 cases had received exposure to this ADC service. The ADC program is available to non-ADC borrowers as well, which account for 30% of the total cases to date.

Alberta Agriculture is also involved in financial counselling and by the end of 1986 nearly 600 producers were recipients of its program. As the initiator of the "Gear-Up-Financially" program, Alberta Agriculture prefers to combine its consultive role with involvement in the lecture program.

One farmer encouraged the use of financial counsellors as follows:

> *"I think professional counselling should be available to all farmers and mandatory for beginning farmers. It should consist of a counsellor who is responsible to meet regularly with the participating farmer and monitor all aspects of the farm operation. The counsellor must have a broad range of agriculture knowledge as well as financial and accounting skills. He should act as a trouble shooter to identify potential problems before they become serious. At this time he should assess the problem and if necessary call in a specialist in that particular*

area. The specialist must be exactly that, someone who has extensive knowledge and experience in a particular field. This may be a farmer, accountant, veterinarian or mechanic as long as he knows his business. He should be paid as a consultant and it should be up to the counsellor to get value for money." [3]

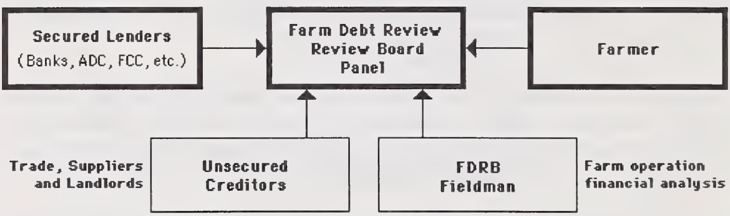
Nearly 600 cases of debt restructuring are expected to be handled by financial counsellors in 1987.

Negotiations through the Farm Debt Review Board

The Farm Debt Board is sponsored by the federal government and was first implemented, in Alberta, in September of 1986.

As of March 1987, 300 Alberta farmers had applied for a review through the Board and over 600 notices of intention had been received.[8] It is estimated that the Board is capable of handling a maximum of 1000 cases annually. Under the Board review, a stay of foreclosure proceedings is placed in effect, for the

Figure 3.05 - Farm Debt Review Board



Source: ADC Review Committee, 1987

duration of an applicant's review up to a maximum of 120 days. Thus far, the Board's review process has been used extensively in Alberta. Its primary objective is to facilitate a voluntary settlement between the lender and the producer, in such a manner as to allow the producer to continue on an improved financial basis, although perhaps on a reduced operating scale. The FDRB process is a negotiating process and involves no legislated write-down of debt.

As can be noted from figure 3.04 not all cases result in positive action and a percentage of the review applicants are left in either the "unresolved" category or are channeled to new careers through a soft receivership process. In nearly all cases, the exiting farmer is left with personal assets and virtually free of debt.

A portion of the unresolved cases end up in bankruptcy court, as a producer can only apply once for a Board review. The pressure on the producer to make a decision during a Review is not as great for Category II applicants as for those from those Category I. Hence the greater proportion of unresolved cases is from Category II.

Using the Courts

In spite of the alternatives available to producers, some do indeed end up in court. It is these cases which may be responsible for the folklore of grasping mortgage holders coveting the farmer's land. In practice, no lender really wants to own land, particularly not a government lending agency.

The court system is normally quite lenient with the producer, specifically so if there is little equity to distribute. Nevertheless the credit rating of the producer is affected, far more so than would be the case for a voluntary settlement, such as reached by a Farm Debt Review Board panel.

The number of bankruptcy cases among the 31,000 commercial scale farmers is estimated at 50 cases per year or less than 0.15%. Cases pertaining to the remaining 20,000 farmers have not been considered, however the average across Canada, in total, is less than 0.2%.[9]

MANAGEMENT TOOLS IN FINANCIAL RESTRUCTURING

A variety of tools can be used in the financial restructuring process. The choice of a specific tool depends on the individual operation and the flexibility of the producer and the creditor.

Many farmers have loans simultaneously with more than one lender and sometimes security is distributed among first, second and third mortgages. This multi-creditor scenario complicates negotiations. The situation is further complicated if payments are in arrears with only a single creditor in a multi-creditor situation. In such cases only a single creditor is anxious to make a move.

The Committee heartily recommends a creative approach to financial restructuring and both the creditor and the debtor need to be flexible in settling disputes.

Sale of Fixed Assets

One of the more obvious ways of reducing debt is the sale of farm land, using the proceeds to reduce corresponding liabilities.

The difficulty with this approach is two fold:

- *Land is currently not easy to sell as the downtrend in land prices has not stabilized as yet.*

- *Land prices have been reduced significantly so that the debt principal may be greater than the appraised value.*

A typical loan portfolio pertaining to a quarter section of land may be as follows:

Amount of original loan	$	140,000
Interest in arrears	$	20,000
Appraised value of land	$	100,000

With reference to the above case, the sale of land would leave the producer short by $60,000 not including sales commissions. As such it would be necessary to sell an unsecured parcel of land or to make up the shortfall from cash.

The producer can alternately sell unsecured farm machinery. The disadvantage is that used equipment often sells for less than 50% of its replacement value. In addition, such a move would hinder the producer's ability to continue farming.

The Barter System

This system is occasionally used to settle a debt. Normally it involves the exchange of debt for assets, such as grain inventory, feed, livestock, and/or small pieces of equipment. Most lenders will accept livestock as payment for debt, as livestock can be readily liquidated.

The Quit Claim Process

This procedure involves the transfer of title pertaining to a parcel of secured land to the lender, in exchange for a release of indebtedness by the borrower. Depending on the financial condition of the producer's operation, the lender may request an additional cash settlement. In many cases the lender ends up having to take a loss, referred to as a write-off.

The quit claim process may require a transfer of security between individual creditors in a multi-creditor situation. This is particularly true if the producer wishes to continue farming and if the land involved contains homes and buildings.

The quit claim process does not significantly affect the producer's overall credit rating, particularly so if other payments to the agricultural trade and to sources of operating capital have been made on time.

Principal Write-downs

This method of debt reduction involves the forgiveness of a portion of the principal. Such a move is not frequently implemented voluntarily by the lender. A loss on principal recovery may result as part of a foreclosure or quit claim, but few lenders, are willing to voluntarily take a reduction on the amount originally advanced. This method of debt reduction is often used among family members.[8]

Interest Forgiveness

The practice of forgiving past due interest is not new to agriculture. Such a move places the creditor in a more negotiable position, as only the potential of profit is sacrificed and not the amount of the original loan.

Third Party Equity Investment

Under this scenario, the producer gives up part of his ownership in an operation, in exchange for an infusion of cash by a third party. The cash can then be used to reduce the long-term debt load and/or function as a source of operating funds. Normally the third party does not become directly involved in the operation of the farm. Care should be exercised that the amount of cash invested is large enough to virtually guarantee viability of the operation.

It may also be possible to sell certain parcels of land to an investment corporation with the intent of leasing the land back for a period of time. In order to attract outside capital, it is mandatory that a detailed financial and marketing plan be prepared at the producer's initiative, taking into account that short-term returns may not be as important to an outside investor as long-term gain. The potential of foreign investment sources should not be overlooked, assuming appropriate regulations can be adhered to.

This method of debt reduction has not frequently been implemented among Alberta producers because the vehicles to deliver equity capital are not in place. Given that individual farm operations may increase in size, this method has some specific advantages. This is particularly true considering that along with third party cash investment, access to specific expertise such as in financing or marketing may also be obtained.

Increased Production

It is possible to reduce debt through extra cash income, derived from increased production in areas which are presently profitable. This method is viable where the necessary debt reduction is relatively small and where the equity investment is sufficient to warrant the borrowing of operating funds to finance the increase in production. It is not considered a viable method in cases where the equity investment is below 20%.

Commodity -based Loans

A commodity-based loan is a loan where the interest rate is indirectly tied in to the price of a specific commodity such as grain, oilseeds or livestock. The time to restructure a conventional loan to a commodity based loan is when commodity prices are expected to fall or to remain low.

Commodity based loans reduce the burden on debt service but they do not allow the debt principal to be reduced. The primary aim of financially stressed producers should be to reduce the debt principal, thereby reducing the requirement for debt service.

Assistance for Farm Exits

In 1986, the federal government introduced the Canadian Rural Transition Program (CRTP). This program is designed to help agricultural producers, who for financial reasons, have been forced to exit farming. The CRTP was designed by Agriculture Canada, and Employment and Immigration Canada, following consultation with provincial governments and farm organizations. The program is administered through the Canada Employment Centres.

Under the CRTP program an exiting farmer may apply for a $1600 grant to cover temporary family living expenses. In addition, should the former producer or family members wish to enter training programs for new careers, funds are available for fees and living allowances. Travel and relocation assistance is also available.

INFORMATION MANAGEMENT IN THE COMPUTER AGE

> *"We may be witnessing the historical change from an energy economy to an information economy."*

Such was the statement by Professor Peter F. Drucker of the Claremont Graduate School in January of 1985. He went on to say: "The farmer may be further ahead in the use of information than the small manufacturer". There is certainly no doubt, that the evolution in technology, such as in robotics and biotechnology, has been accompanied by a revolution in information technology. An agricultural journal recently reported that the trend in agriculture has changed from "iron farming" to "information farming". Future economic projections dictate the need for substantially more information, particularly in finance, marketing and production planning. One researcher submitted that there already is a need for more specific data on commercial farms:

> *"Research efforts need to be continued and intensified into the structure and performance of commercial farm businesses. It is unfortunate that no consistent and long term data base on this important subject exists in the province of Alberta. This deficiency translates into a lack of solid information on which to develop and maintain reliable guidelines for establishing debt carrying capacity for typical categories of commercial farms. In effect this lack of information hinders borrowers from applying 'repayment' ability tests and prevents lenders from assessing the borrower's 'capacity' to service the debt."* [2]

Farmers must take precautions not to become data rich, yet information poor. More and more sources of information will be generated over the next ten years and it will become increasingly difficult to sort and interpret data and to file information for future decision making functions. The Alberta producer must become more information conscious and must avail himself of better and efficient tools to store and process new information. It should be noted, that the principle of information consciousness is more important than the tool for handling the information. If a producer is not information conscious, having a good tool such as a computer, is of no value.

Information management requires organization. Until a producer becomes organized in a manner to handle information properly and to channel it for further processing and future use, improving the tool for information management such as the purchase of a computer, is of little advantage. Even a computer must be told what to do, where to file information, how to display the data and what to process. The computer will make few, if any, decisions on its own. The primary advantages of a computer are:

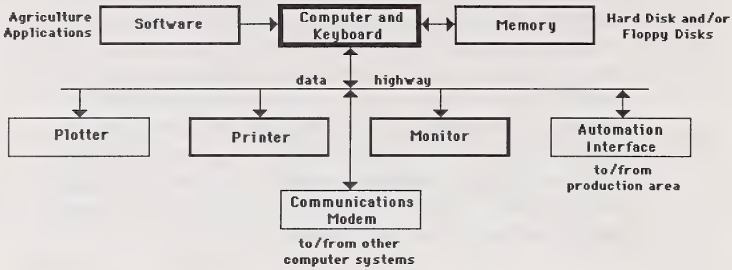
- *It allows the processing (calculation) of information at a rate much faster than possible manually.*

- *It facilitates direct access to information sources otherwise not readily accessible - ie. larger computer systems located world-wide.*

- *It requires relatively little space for information storage.*

- *It enhances the presentation of information in an easily interpretable manner.*

Figure 3.06 - Typical Farm Computer System



Source: ADC Review Committee, 1987

A typical microprocessor-based personal computer system is outlined in figure 3.06. The basic hardware components are the microprocessor, keyboard, some memory, a monitor (CRT) and a printer. The remaining items are optional, necessary only for special applications.

One of the basic requirements to operate a computer system is "software". The computer hardware is normally supplied with some operating software, but special application software must be purchased separately, usually in packaged formats on diskettes. To assist users, a number of computer consulting firms, specializing in agricultural applications, are located in Alberta.

Studies indicate that up to 10% of Alberta farmers have currently invested in a computer system.[10] Most of these systems have been purchased by producers who are "innovators" in agriculture and many of these computers are used to actually increase the profitability of operations. It is suspected that there still is a substantial shortage of good software programs, applicable specifically to agricultural use. There is a definite need for software development by both on-farm users and off-farm specialists. With packaged software it is not necessary for the farmer/operator to be familiar with computer programming.

Computers can be used to perform the following functions:

- *Bookkeeping and general accounting.*
- *Budgeting, financial statements, accrued cash flow projections, actual cash flow control, cost control.*
- *Market forecasting, market monitoring.*
- *Report writing, information storage by headings.*
- *Weather data monitoring.*
- *Monitoring data from agricultural extension services worldwide.*
- *Price cycling, market hedging decisions.*

- *Crop production decisions, livestock marketing.*
- *Capital investment decisions.*
- *Environment control (poultry, hog barns).*
- *Tax management, equipment size selection.*
- *Direct monitoring of dairy production.*
- *Crop growth monitoring.*
- *Equipment maintenance procedures and control.*
- *Purebred cattle production records.*
- *Sensitivity analysis in production planning.*
- *Graphic displays of data, plotting, design drafting.*
- *Education and multi-user training.*
- *Access to artificial intelligence expertise systems.*

The key to purchasing a computer system is the availability of software. Once a software selection has been made, appropriate hardware can next be defined. Examples of agricultural software programs are Homestead, Settler, Red Wing, Grass Roots, Harvest and Ag Check among others. Most available programs can be run on IBM or IBM compatible equipment. Limited application software is currently available for other competitive models, with some exceptions. Computer service is also of high priority. Advice on the availability of agricultural computer service and sales companies can be obtained from the Farm Business Management Branch of Alberta Agriculture at Olds, Alberta.

BUSINESS EDUCATION IN AGRICULTURE

College and University Education

Formal agricultural business education courses are offered by at least three colleges (Olds, Vermilion and Fairview) and at the University of Alberta. Business education offered at other post secondary institutions is primarily general in nature with limited emphasis on agriculture. Programs are being developed at the Lethbridge Community College and Medicine Hat College to enable students to qualify for transfer to universities.

A typical curriculum consists of the subjects listed below.

Table 3.02 - Olds College Farm Management Curriculum

Production	Financial	Marketing	Other
Agronomy	Accounting	Principles of marketing	Human relations
Field crop production	Farm finances		Personnel supervision
Tillage/harvest equipment	Farm business management		Farm law
Livestock production	Business mathematics		Computer operation
	Economic principles		

It would appear that the content of these courses is well matched to the needs of business management in agriculture. The agricultural business program at Olds is a 2 year program.

Review participants have stated that formal training in agricultural business education at the university level can be improved. A respective point of view was expressed by Prof. G.A. Mumey of the Faculty of Business at the University of Alberta:

> *"There is a serious shortage of persons who are well trained in the application of advanced financial analysis in agriculture. In Alberta, the faculty of Agriculture has neglected finance almost completely. It has no staff members with doctoral-level specialization in finance. The Faculty of Business, which has such staff members, has had little contact with agricultural issues or the agricultural community. As a result, there has been no conduit within Alberta for the transmittal of advanced financial analysis into agriculture. I doubt if things are much different in other Western provinces. The Faculty of Agriculture is now attempting to redress this problem, with little present support from Government. Until this basic problem is solved, university-trained financial expertise will be lacking in any program for upgrading farm financial management."*[1]

The Green Certificate Program

In 1975 the Government of Alberta, through Alberta Agriculture and Alberta Manpower introduced an on-farm agricultural skills program entitled the Green Certificate Program. The program enables a farm trainee to be trained by an employer, at a rate of learning largely determined by the two parties involved. The advisor or employer/supervisor is reimbursed for the training service through a 50% trainee salary subsidy.

There are three levels of proficiency within the Green Certificate Program. A participant is required to pass a written and practical skill test, administered by a third party.

Level 1 - General Farm Hand

A training period in the use of equipment and techniques employed in a specific area of agriculture - such as cattle, sheep, hogs, crops, or irrigated crops.

Level 2 - Foreman or Equivalent

A training period to advance the trainee to a specific level of proficiency in production techniques.

Level 3 - Farm Financial Management

This level pertains to the understanding and preparation of accounting data, including financial statements and cash flow projections for loan applications and further management functions. It is a very basic introduction to financial management techniques.

As of February, 1987 there were 225 persons enrolled in the Green Certificate Program. Of these only 6 are at the third level of proficiency. Leaders of the program recommend that Level 3 participants obtain additional training in business management from other sources including the Agricultural Colleges and/or the "Gear Up Financially" program offered by Alberta Agriculture. The Green Certificate program appears to be very applicable to production management. It is difficult to perceive the program as a major thrust in financial management education, particularly since the supervisor/employer may not be very skilled in financial management techniques or may be unwilling to share personal financial data with the trainee. Little, if any, marketing management training is provided.

Financial Management Programs by Alberta Agriculture

In 1985, the Government of Alberta, through the Alberta Agriculture Farm Business Management Branch, commenced the "Gear Up Financially" program. This program is quite intense and takes approximately 12 weeks to complete. It has been offered at more than 50 locations throughout the Province. The total enrollment reached 700 by February, 1987.

The program emphasizes the study of financial principles and the application of these to the student's personal situation. The course covers subjects such as: financial statements, cash flow projections, goal setting, management principles, decision making techniques, profit/loss statements. The unique feature of the program is that the student has an opportunity to analyze and plan a real operation versus a hypothetical case. There is no charge for the course, nor is there any examination.

The Committee believes that this program has good potential for improving the financial management skills of established as well as beginning farmers.

General Remarks

Given that a significant number of commercial scale farmers in the province could use at least some improvement in their financial management skills, the present educational efforts are only making a very small contribution. No more than 1000 persons out of a total farm adult population of 100,000 are presently enrolled in a farm financial management educational program, (1%). There is room for substantial improvement, particularly in the area of agricultural marketing education.

A number of producers and educators addressed this issue during the Review. Some of their comments are listed below:

> *"Lack of education is a big problem with many young farmers. They should have a theoretical background along with practical training. Agriculture is a trade. It requires training ."* [11]

> *"The courses which Alberta Agriculture provides are not unreasonable. Lenders should require these courses to be taken ."* [12]

> *"Mandatory (financial management) courses would be a good idea ."* [12]

> *"The Green Certificate program and/or a college education is a must ."* [13]

> *"Financial training is essential. "Gear Up Financially" or similar courses should be a pre-requisite for a loan ."* [13]

> *"A farmer-training program should be instigated. This program could best be carried out by drawing on retired or semi-retired farmers, those who have made a success of farming themselves, who would be willing to work part-time in an advisory capacity, passing on their wealth of knowledge, gained mainly through practical experience, to a new generation of farmers... He could help the new farmer set up a comprehensive bookkeeping system, one of the keys to a successful operation ."* [15]

Another quotation was submitted by Prof. Bauer, recommending additional emphasis on business education:

> *"Extension and education efforts to improve the capability of farmers in the area of farm business management need to be intensified in addition to the important steps that have been taken in the past few years. It is contended here that a long run viable agriculture depends upon good management capability*

at the farm business level. Economic indicators point towards larger more commercial farm businesses. As farms become larger and more commercialized and as they use more sophisticated technologies, they will need to make use of modern business management skills. Extension services and their officers must cease being instruments of government policy and return to the less biased role of adult educators. Extension and education approaches should be re-examined and rationalized to meet these challenges. The education and in-service training of extension officers need to be intensified in the area of farm business management. Well prepared extension officers will likely continue to play a vital role in upgrading managerial skills of farm operators ." [2]

At one of the Committee hearings, Dr. D. Cornish, president of the Olds Agricultural College, made some comments regarding the integration of various business education courses presently being offered. In particular, Dr. Cornish addressed the issue of the lack of integration with reference to credit transfer from one program to another and also the fact that duplication exists between various programs.

"We are not seeing training in an integrated way, whether it is at the college, or at home or through extension services. Other nations are ahead of us in this matter. A better delivery of the entire education process is required ." [14]

Dr. Cornish expressed his concern that farm business management education, or all agricultural education for that matter, should be co-ordinated through a single agency, rather than through a variety of entities, as good as they individually may be. The responsibility for agricultural education, including business education should be clearly identified.

The Committee concurs with Dr. Cornish's intent and believes that this is the proper time to make adjustments, since farm business management education in Alberta is still in the infancy stage.

SUMMARY OF COMMITTEE VIEWPOINTS

- *The 31,000 Alberta commercial scale farm operations are generally being managed on a reasonably sound business basis. However most farm managers need to improve their skills in the area of financial and marketing management. This is necessary in order that management be able to cope with the challenges facing agriculture over the next 10 years.*

- *Throughout the province, continued emphasis needs to be placed on the availability of education in farm business management. This applies to all levels of business education: university, college and extension services. The responsibility for farm business education must be singularly defined in order that an integrated approach can be achieved.*

- *Over the next five years, emphasis must be placed on debt reduction, particularly by those 8500 commercial scale producers who are currently experiencing financial difficulties. It is estimated that a 40% debt reduction by nearly 25,000 producers will help to place the agricultural industry into a stable position, enhancing the viability and profitability of commercial scale operations.*

- *Producers are encouraged to make use of the existing debt restructuring process such as facilitated by financial counsellors and the Farm Debt Review Board. The use of third party equity financing is also highly recommended.*

- *The use of computers as a tool in agricultural information management will become increasingly necessary over the next 10 years. Both government and private sources are encouraged to become involved in the design of agricultural application software and in computer education.*

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(2) A Background Paper on Risk in Agriculture and its Management prepared for the ADC Review Committee - Prof. L. Bauer, Dept. of Rural Economy, University of Alberta.

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(4) Personal Viewpoint - W.Quinney, Farm Equipment Dealers' Association, 1986.

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(6) Report by ADC Management, Camrose, Alta., January, 1987.

(7) Background paper on farm stress prepared for the ADC Review Committee, Ms. Joyce E. Lencucha, Red Deer, Alta., 1987.

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(9) Report on Business, May 1986, Anne Fisher, Article on Farming's Mortgaged Future.

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(11) Personal Viewpoint - S. Nielsen, Producer, Olds, January 1987.

(12) Personal Viewpoint - D. Johnson, G. Goertzen, Producers, Stettler Area, January 8, 1987.

(13) Personal Viewpoint - Producers, Busby Area, January 1987.

(14) Personal Viewpoint - Dr. D. Cornish, Educator and President, Olds Agricultural College, January 1987.

(15) Personal Viewpoint - Mrs. Alice Strawson, Bon Accord, Alta., January 1987.

(16) Working Group on Farm Finance, First Ministers' Conference, May 1986.

(17) Public Opinion Poll of Alberta Farmers - Heffring Research Group Ltd., January 22, 1987.

(18) Remarks made at the REDA Agrifood Conference, Calgary, Alberta, February 1987.

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CHAPTER 4

ADC - THE CORPORATION IN REVIEW

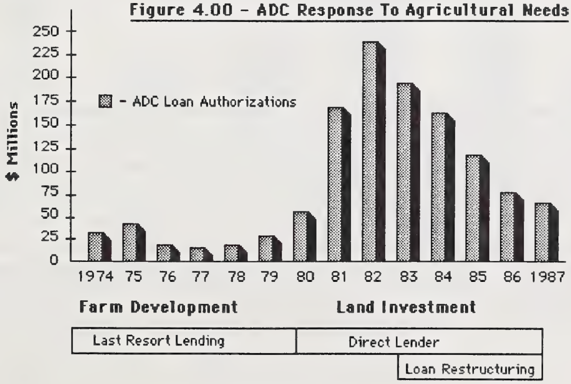
ADC - THE CORPORATION IN REVIEW

ADC - THE CORPORATION'S HISTORY AND LENDING RECORD

The Alberta Agricultural Development Corporation (ADC) was established in 1972 by the Alberta Legislature through the Agricultural Development Act. The Corporation was given the mandate of providing financial assistance to the agricultural industry. In particular, ADC was instructed to place special emphasis on programs aimed at helping low income producers and young people wishing to enter agriculture. Funds from the government were initially made available through the Agricultural Development Fund and later from the Heritage Savings Trust Fund.

Prior to 1972 there were few readily available sources of long-term credit for agricultural development purposes. Retiring farmers were encountering difficulty in transferring land to the younger generation, many of whom were not able to qualify for conventional loans. In fact, the average age of farmers was increasing. The lack of credit availability was not limited to young beginning farmers but also affected the development and expansion of the agribusiness industry and existing farm operations, particularly those farmers with low incomes. ADC was established as the government's response to an industry need. The intent was that ADC would **compliment** the services available from the private commercial lenders. Long-term credit was made available through ADC, in the form of direct loans as well as guarantees on loans made through other lenders. For the first few years of operation, ADC's loan portfolio consisted primarily of loan guarantees. The Corporation essentially functioned as a lender of last resort.

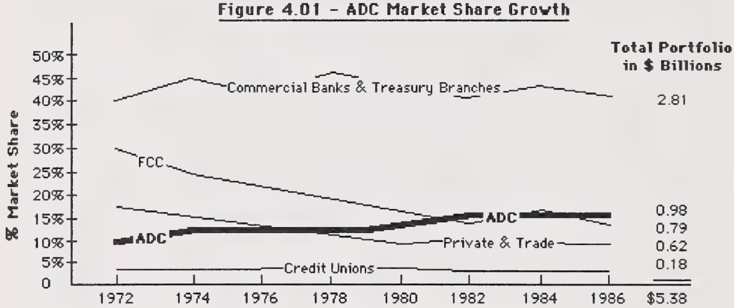
Figure 4.00 - ADC Response To Agricultural Needs



Source: ADC Review Committee, 1987

In the late 1970's the mandate of ADC was modified in order to enable the Corporation to react to changes in the demands of the industry. In fact, ADC shifted its direction from a development and loan guarantee role to a direct lender role. The change in role is displayed graphically in figure 4.00. Eventually ADC assumed responsibility for nearly 20% of the industry credit needs and its portfolio covered almost 30% of the total long-term fixed loans outstanding in Alberta. The growth in the ADC market share did not appreciably affect the share which the commercial banking industry has traditionally held although the share by the private banks declined slightly. The decrease was more than made up for by the growth of the Treasury Branches. On the other hand, the growth in the ADC loan portfolio share has been at the expense of FCC as shown in figure 4.01. Essentially, federal credit was exchanged for provincial credit. It is not known whether this was done by design or resulted from direct market pressure.

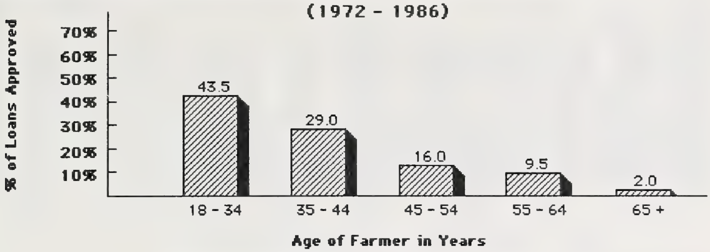
Figure 4.01 - ADC Market Share Growth



Source: ADC Review Committee, 1987

The change in emphasis to direct lending had its most dramatic effect in the Beginning Farmer program. During the early 1980's many restrictions were relaxed including age limits, off-farm employment restrictions and limits on the restructuring of debt loads. As a result, the Beginning Farmer program became a major source of debt capital for new and young farmers. Figure 4.00 indicates the dramatic increase in direct lending between 1978 and 1982, at least 80% of which went to new and young farmers. During this period the authorized loan guarantee portfolio remained relatively steady, varying between $60 million and $80 million. Figure 4.02 details the distribution of ADC loans by age groups.

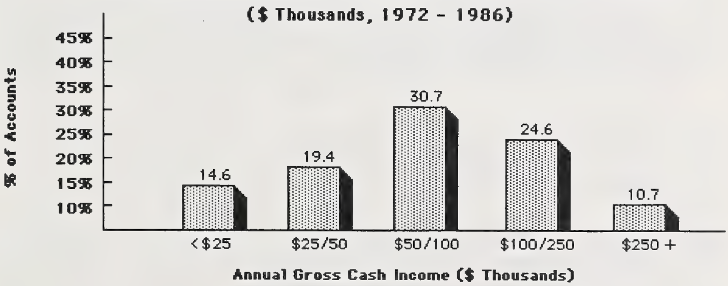
Figure 4.02 - Estimated Distribution of ADC Loan Authorizations by Farmer Age



Source: Heffring Research, Opinion Survey, 1987

The majority of the loans were distributed to producers with relatively large incomes as shown in figure 4.03.

Figure 4.03 - Estimated Distribution of ADC Loans by Farm Income



Source: Heffring Opinion Survey, 1987

Further comparison of the ADC and industry loan portfolio is presented in table 4.00.

Table 4.00 - Comparison of the Industry and ADC Loan Portfolios (1986)

(Estimates prepared by Agritrends Research Group, 1987)

Gross Cash Receipts($)	Number of Producers	Number with Debt	Number of ADC Farm Loans	* % ADC share	* Average Loan($)	Estimated Average ADC Farm Loan($)	Debt/Asset Ratio
2,000/ 24,999	20,000	9,000 (45%)	1,390	15.4%	41,400	25,000	12.8%
25,000/ 49,999	9,600	5,760 (60%)	1,846	32.0%	82,000	50,000	17.4%
50,000/ 99,999	8,600	6,970 (81%)	2,923	41.9%	112,000	92,000	19.0%
100,000/ 249,999	9,600	8,640 (90%)	2,341	27.1%	218,000	150,000	27.2%
250,000 +	3,200	2,976 (94%)	1,018	34.2%	630,000	225,000	39.2%
74,500 average	51,000	33,346 (65%)	9,518	28.5%	161,000	102,300	25.0%

* Relative to farmers with debt

There are a number of conclusions which can be drawn from this information :

- *A total of 41,600 farmers (81.5%) do not have an ADC loan. More than 17,500 farmers (35%) have no debt of any kind.*

- *Of the 33,346 farmers with debt, 9,400 farmers have an ADC loan (28.3%). The total debt by these 33,346 farmers is $5.38 billion, with ADC's portion being $973 million (18.2%).*

- *Among the 31,000 commercial-scale farmers (those farmers grossing more than $25,000 annually), ADC has 8,128 accounts or 33.7%. The total debt carried by the commercial-scale farmers is $5.01 billion, of which approximately $940 million (18.7%) is estimated to be to the account of ADC.*

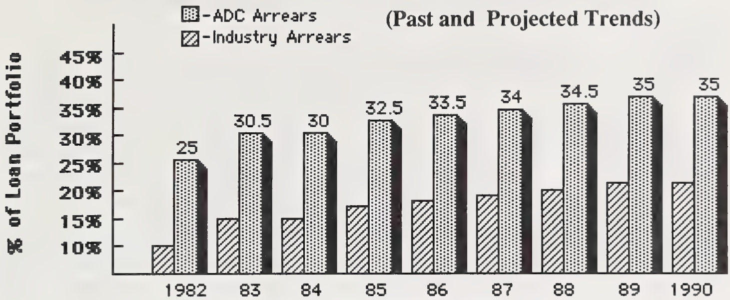
- *The largest portion of debt-free farmers (55%) is in the lower income category. The smallest portion of debt-free farmers (6%) is in the highest income bracket.*

Since 1982, ADC has become increasingly involved in the role of financial restructuring or loan administration. This was necessitated by the inability of an increasing number of borrowers to pay the interest and principal due on the loan portfolio. As the net income of producers decreased, the ability to service debts decreased accordingly. As a loan administrator, ADC became involved in monitoring of accounts, providing financial counsel through the Enterprise Counselling program, collecting accounts in arrears and the restructuring of loans.

In functioning as a loan administrator, it has been the practice of the Corporation to postpone legal action for as long as possible and to negotiate either a restructured loan or an out of court settlement. The Corporation has made extensive use

Figure 4.04 - ADC and Industry Loan Arrears *

(Percentage of Loan Portfolio)



Source: ADC Review Committee, 1987

of financial counsellors and in October of 1986 ADC commenced participation in negotiations through the Farm Debt Review Board. The role of financial restructuring is beginning to take up a substantial amount of ADC's staff time and the situation is not expected to improve over the next few years. The Committee concurs with the view of many economists that the present downtrend in the agricultural economy is not necessarily of the short-term variety, but may represent the beginning of a long adjustment period.

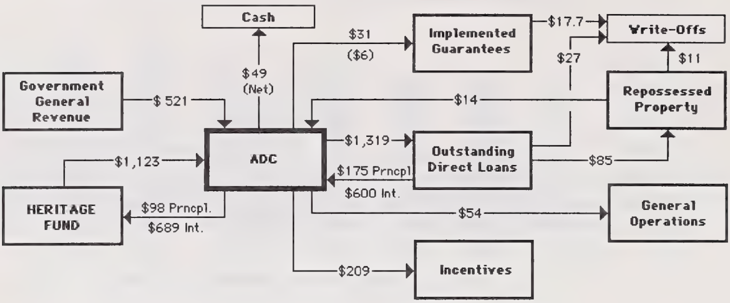
ADC - THE CURRENT LOAN PORTFOLIO

Since 1972 the Corporation has approved over $2.5 billion in direct loans and loan guarantees to Alberta farmers. This amount is in addition to the $2 billion offered by the Government of Alberta through the private sector lenders under the Alberta Farm Credit Stability Program.

Loan funds distributed by ADC are borrowed by the Corporation from the Government through the Heritage Savings Trust Fund, in the form of debentures on which the Corporation pays market rates of interest. ADC has paid $689 million in interest since 1972. The Corporation has also received more than $520 million in support directly from other Government revenue sources to cover operating losses, loan losses and implemented guarantee losses and incentives. This support is in the form of grants rather than loans.

*Arrears are not calculated consistently across the industry. However, ADC arrears as shown are for any accounts over $100 past due while commercial lenders will normally use a criteria of 180 days.

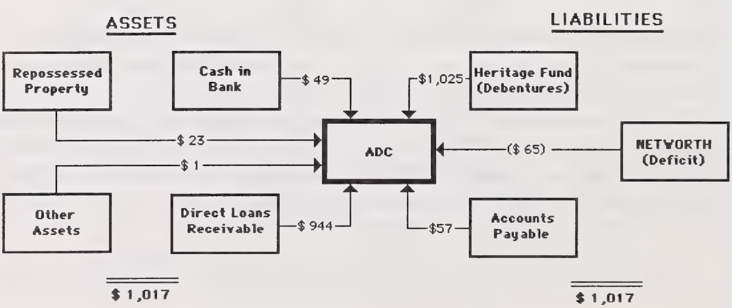
Figure 4.05 - ADC Historical Funding and Repayment Patterns ($Millions)
(1972 to February, 1987)



Source: ADC Review Committee, 1987

The Corporation's historical funding and repayment pattern is shown in figure 4.05. Note the disbursement of cash to various sources and the returns to the Heritage Savings Trust Fund. ADC's current financial statement is outlined in graphic form in figure 4.06. The Corporation loan portfolio is further detailed in table 4.01. This portfolio has grown from $700 million in 1982 to its current level of $1,033 million.

Figure 4.06 - ADC Balance Sheet @ February 28,1987
($ Millions - after loss provision)



Source: ADC Review Committee, 1987

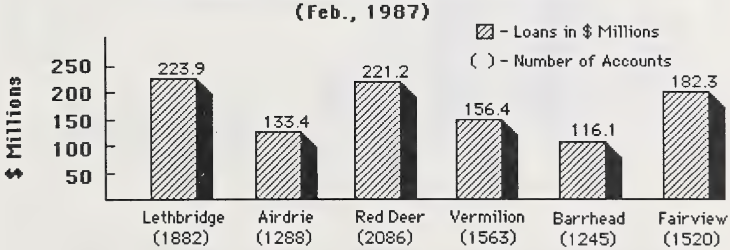
Table 4.01 - ADC Loan and Guarantee Portfolio (Feb 28, 1987)

Type of Loan	Number of Loans	Amount of Direct Loans in $ Millions	Amount of Guarantees in $ Millions	Implemented Guarantees in $ Million *
Direct farm loan	9,518	972.6		
Farm guarantees	13,955		155.6	
Guarantees called *	169			4.2
Direct agribusiness loans	66	60.6		
Agribusiness guarantees	21		1.9	
Guarantees called *	9			~~3.0~~
		$ 1,033.3	$ 157.5	$ 7.2

* Guarantees which have been called but have not yet been collected.

The ADC loan portfolio among producers is distributed among the six (6) operating regions as outlined in figure 4.07.

Figure 4.07 - ADC Loan Portfolio By Region
(Feb., 1987)

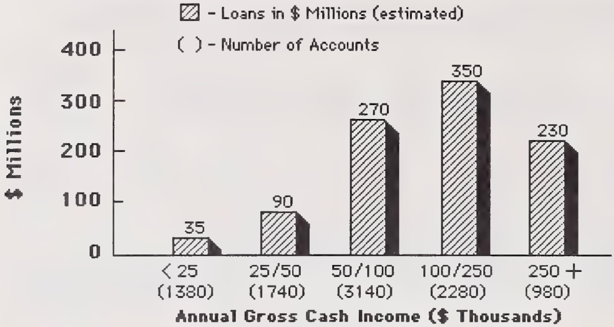


Source: ADC Review Committee, 1987

The largest number of producer loans have been made in the south and north central regions as represented by Lethbridge and Red Deer respectively. The smallest portfolio portion is in the north west region.

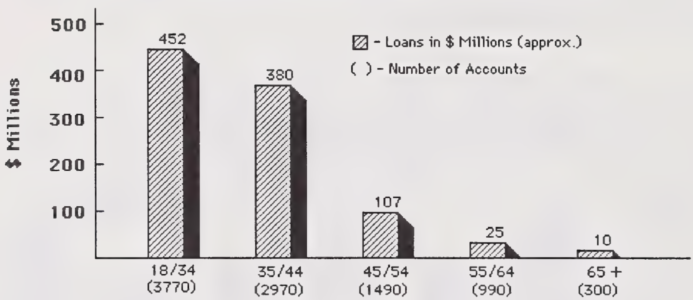
The loan portfolio has also been presented by producer income, as outlined in figure 4.08. Figures 4.09 and 4.10 detail the portfolio by producer age and producer enterprise. Nearly 60% of the ADC portfolio is held by grain farmers.

Figure 4.08 - ADC Loan Portfolio By Farm Income (Feb., 1987)



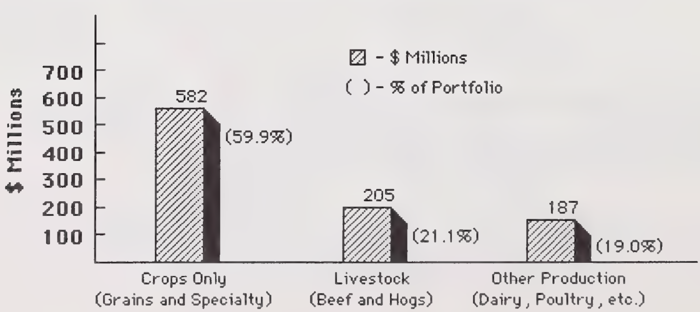
Source: ADC Review Committee, 1987

Figure 4.09 - ADC Loan Portfolio By Farmer Age (Feb., 1987)



Source: ADC Review Committee, 1987

Figure 4.10 - ADC Loan Portfolio By Enterprise (Feb., 1987)

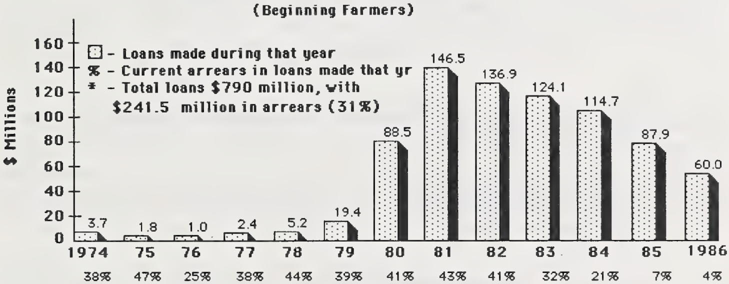


Source: ADC Review Committee, 1987

ADC - THE CORPORATION'S LOAN ARREARS AND PROJECTED LOSSES

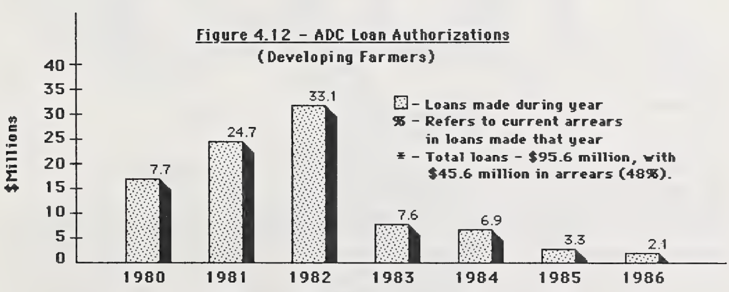
By February 28, 1987 nearly 34% of the total ADC loan portfolio of close to $1.0 billion had gone into arrears. Of the 9,518 direct loan accounts, 2,670 (27.8%) are currently in arrears, 1,170 accounts for at least one year. The actual amount of arrears is $53 million of which $40 million is estimated as being past due interest. The actual amount owing represents 5.3% of the loans outstanding. Throughout this report arrears are reported as a percentage of the loan portfolio - ie. 34% of the loan portfolio of nearly $1 billion has incurred at least some arrears. As shown in figures 4.11 through 4.13 the arrears situation is not limited to those loans made in 1980/81 when land prices were relatively high, but a percentage of each annual loan portfolio authorized since 1972 is in arrears. Neither are the arrears limited to beginning farmers. Loans made to developing farmers and special loans have gone into arrears as well.

Figure 4.11 - ADC Loan Authorizations
(Beginning Farmers)



Source: ADC Research and Statistics, 1987

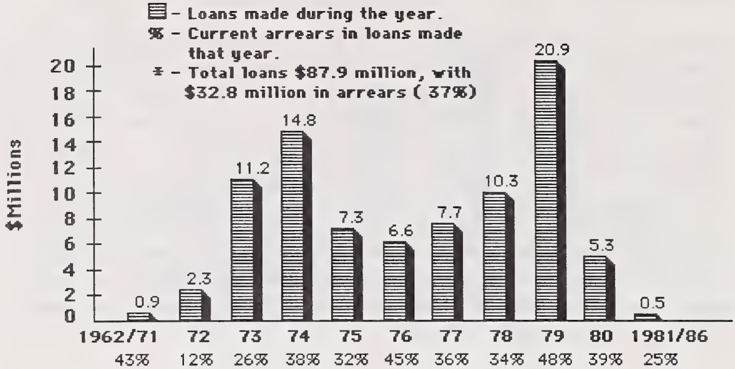
Figure 4.12 - ADC Loan Authorizations
(Developing Farmers)



Source: ADC Research and Statistics, 1987

Figure 4.13 - ADC Loan Authorizations

✲ (Other Loans)



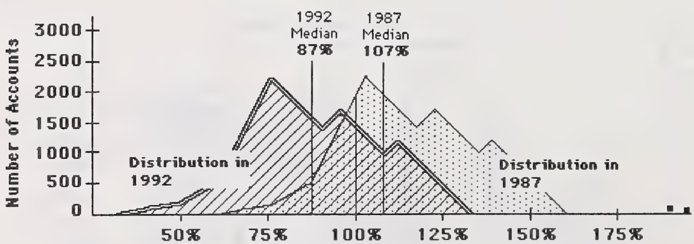
✲ - Other loans for: Production development, financial restructuring, father/son programs, disaster relief, farm booster program and loans for part-time farmers.

Source: ADC Research and Statistics,1987

The collection of arrears is made more difficult by a decreasing land value base. For many of the accounts in arrears the security value is less than the principal outstanding and in such cases any foreclosure action will result in a substantial loan loss, taking into account both past due interest and the deficiency in security.

Figure 4.14 - Estimated Security Position of ADC Portfolio (Feb., 1987)

Year	Undersecured Accounts	Secured Accounts
1987	1732 (19%)	7770 (81%)
1992	7317 (77%)	2185 (23%)



Source: ADC Review Committee, 1987

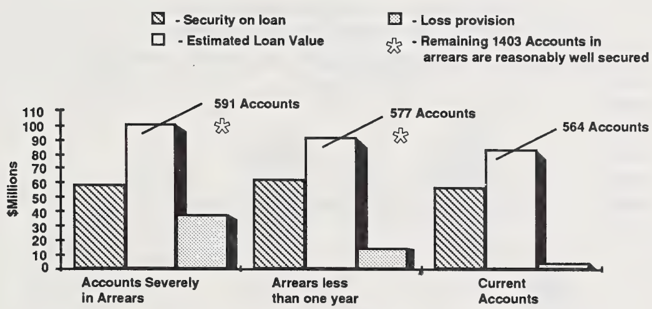
As shown in figure 4.14, the estimated security position of the ADC loan portfolio is still reasonably good as of February 28, 1987, with 81% of all loans secured at least 100% or better. The median is at 107%. As shown in table 4.02, however, this situation may deteriorate rapidly if land prices continue to fall. At least 98% of ADC loan security is in the form of land and buildings.

Table 4.02 - Projected Security Position of current ADC Loan Portfolio

Average Land Values	Undersecured Accounts	Median Percentage	Secured Accounts	Median Percentage
100% (1987)	1,732	50%	7,770	117%
10% Decline	4,358	70%	5,144	115%
15% Decline	5,196	70%	4,306	111%
20% Decline	7,317	74%	2,185	120%
25% Decline	8,172	72%	1,330	127%
30% Decline	8,172	67%	1,330	122%

Not all security deficient accounts are in arrears and not all accounts in arrears are necessarily undersecured. The January, 1987 statistics for security deficient accounts are shown in figure 4.15.

Figure 4.15 - Security Deficient ADC Loans (Jan., 1987) *



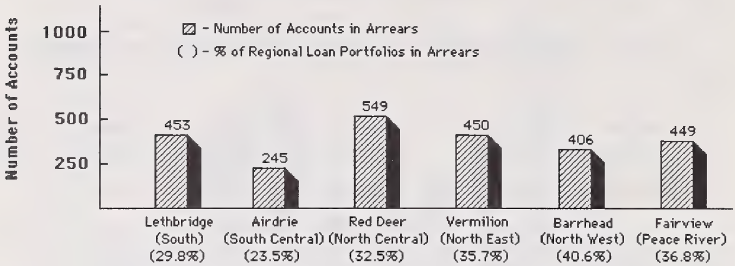
Source: ADC Research and Statistics, 1987

* Figure 4.15 has been amended in this edition to reflect additional information supplied by ADC.

Little loss provision has been allocated to the 564 current accounts even though they are 50% undersecured. There is, as yet, no significant expectation that these accounts will go into arrears and subsequently the loss provision is low. The same logic applies to the 577 accounts which are less than one year in arrears and which are undersecured. ADC is expecting that the majority of these accounts will be brought up to date.

Figure 4.16 illustrates the ADC accounts in arrears by region.

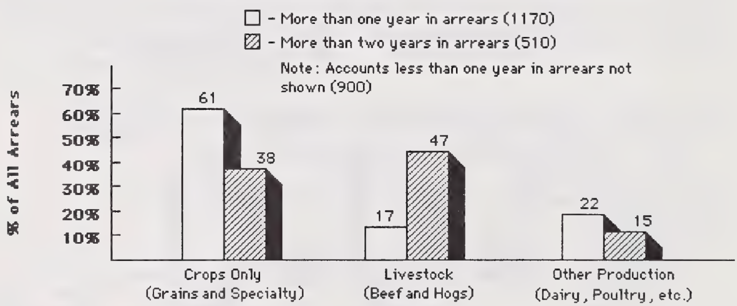
Figure 4.16 - ADC Accounts in Arrears by Region (Feb., 1987)



Source: ADC Review Committee, 1987

ADC arrears have been further categorized by farm enterprise, as shown in figure 4.17. Out of the 1,170 accounts which are more than one year in arrears, 61% (714 accounts) pertain to grain farmers, while 21% (246 accounts) are livestock producers.

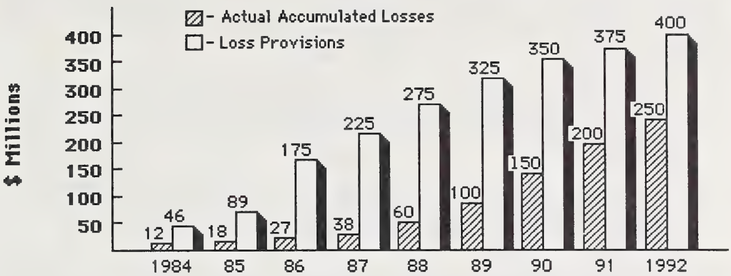
Figure 4.17 - ADC Arrears by Enterprise (Feb., 1987)



Source: ADC Review Committee, 1987

With reference to accounts which are more than 2 years in arrears, the greater percentage is among livestock producers. This would indicate that livestock producers may currently be exposed to the results of an earlier problem (1983/84), while a more severe arrears problem for grain farming may yet become a reality. The loan loss situation is depicted in figure 4.18 complete with projected actual losses and loss provisions.

Figure 4.18 - ADC Loan Loss Trends and Projections *



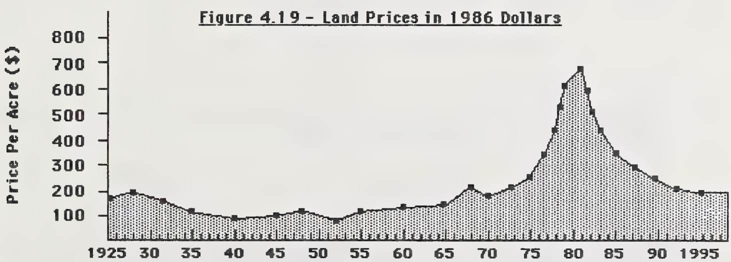
Source: ADC Review Committee, 1987

* Projections are based on the continuation of current lending activity.

Should the present trend in arrears continue the provision for losses and actual incurred losses will increase. The projected 1992 loss provision for ADC is estimated at $400 million. The loss provision represents future anticipated losses. Total actual accumulated losses by 1992 are projected to reach $250 million. This does not include accumulated general operating losses.

The loss projection depends to some extent on the further erosion of the land values. Figure 4.19 shows the average land values over the past 60 years on a per acre basis adjusted to 1986 dollars. The projection of future land prices is based on the general long-term trend of average values.

Figure 4.19 - Land Prices in 1986 Dollars



Source: ADC Review Committee, 1987

ADC AND THE AGRIBUSINESS INDUSTRY

In addition to providing credit to agricultural producers, the mandate of ADC also covers the provision of financial assistance to the agribusiness industry. This industry includes:

- *The agrifood sector, which is involved in processing, manufacturing, altering or packaging agricultural commodities into consumer food or animal feed products.*

- *The farm supply sector, which provides essential services to primary pro ducers, covering fertilizers, fuels, veterinary products, etc.*

A list of typical enterprises in which ADC has participated with financial assistance is presented in table 4.03.

Table 4.03 - List of Agribusiness Enterprises

Farm Supply	Agrifood Processing	Specialty Farming
Seed cleaning	Primary	Mushroom farming
Fertilizer equipment		Greenhouses
Fertilizer	Dairy processing	Hatcheries
Gas co-ops	Abattoirs	Apiary operations
Veterinary clinics	Feed mills	Peat moss farms
Lime plants	Shipping and marketing boards	
Animal breeders	Potato processors	
On farm services	Vegetable processors	
	Alfalfa processors	
	Oilseed crushing plants	
	Secondary	
	Meat product processing	

Since 1972, ADC has made a total of 550 agribusiness loans and has authorized nearly $120 million in financial assistance. This amount is made up of approximately $30 million in direct loans and $90 million in loan guarantees. The above data excludes one large agribusiness account, the Northern Alberta Rapeseed Processors Co-operative Limited (NARP), which alone received almost $120 million in ADC assistance, $47 million in direct loans and the remainder in loan guarantees. Currently there are 62 ADC agribusiness accounts in effect, excluding NARP. It is estimated that in Alberta, there are nearly 300 agrifood processors and 750 farm supply or input related businesses, not including feed companies and financial institutions. Both ADC and the Alberta Opportunity Company (AOC) have been involved in agribusiness lending.

Of the 550 loans which were authorized, 440 were for new businesses while 110 loans were made to assist existing enterprises. Agribusiness loans were authorized as shown in table 4.04.

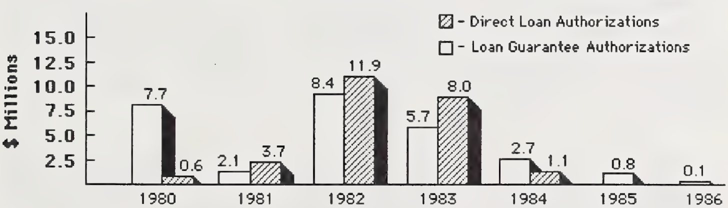
Table 4.04 - Distribution of agribusiness loans (1972/87)
(Excluding NARP)

Sector	Total Amount in $ millions	% of Total
Farm supply	$ 29.4	25%
Agrifood primary processing	64.1	55%
Agrifood secondary processing	10.0	9%
Specialty farming	13.4	11%

As detailed in figure 4.22, the current ADC agribusiness direct loan portfolio is $13.7 million, excluding NARP. This is in addition to $1.9 million in loan guarantees. The loan portfolio has been declining since 1982. More than 50% of the non-NARP portfolio is in arrears, or 38% of the 62 accounts.

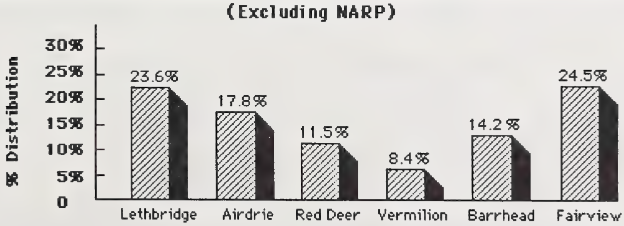
The largest authorized loan amounts have been in the south and north regions, as reflected in figure 4.21. The Vermilion and Red Deer areas have received proportionately less in financial assistance.

Figure 4.20 - ADC Agribusiness Annual Lending Activity
(Excluding NARP)



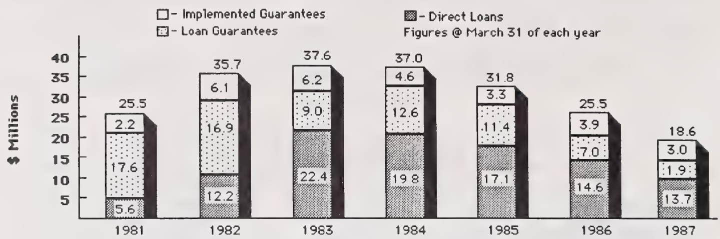
Source: ADC Research and Statistics, 1986

Figure 4.21 - ADC Agribusiness Loan Authorizations By Region (1972/86)
(Excluding NARP)



Source: ADC Research and Satistics, 1986

Figure 4.22 - ADC Agribusiness Annual Portfolios
(Excluding NARP)



Source: ADC Research and Statistics, 1986

In agribusiness lending, ADC has traditionally preferred loan guarantees over direct lending and has tried to maintain its status as lender of last resort. Direct lending was introduced in 1977 to provide fixed rate funding to protect businesses from escalating interest rates. The ADC rate of interest was kept at 15% from 1981 to 1985 and reduced by a 3% incentive in 1985 in an attempt to become more competitive. In early 1986 it was again reduced, this time to 11% where it currently remains.

The services of ADC in agribusiness have on several occasions been directed at specific sectors of the agribusiness industry, during times when various outside factors were placing heavy pressure on those sectors. An example of this is the refinancing of gas rate borrowings between 1980 and 1983. An agreement was reached between the Ministries of Agriculture and Utilities to enable all rural Alberta Gas Co-ops to refinance their gas rate borrowings through ADC at a substantially lower rate of interest (12%). Rural natural gas consumers indirectly benefitted from this arrangement.

A similar approach was taken with respect to the alfalfa processing sector of the industry. The Minister of Agriculture approved a program of direct funding through ADC at a 15% rate of interest. This sector was allowed to participate in three seperate programs to shield it from high rates of interest and depressed commodity prices.

In 1982, ADC participated in a financing arrangement for co-operatively owned seed cleaning plants. Under a provincially sponsored program, seed cleaning plants were established with 40% in provincial government grants, 20% in local government grants and 40% raised by members of the co-op. One half of the member's share was provided by ADC as a loan, with ADC waiving its restriction on being a lender of last resort.

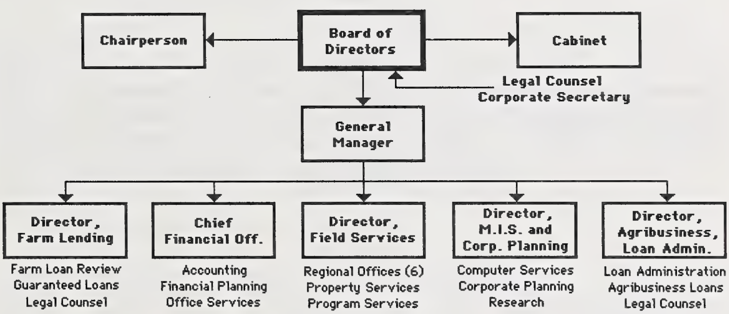
As mentioned previously, ADC has one large agribusiness account, the NARP account at Sexsmith, Alberta, in the Peace River region. NARP is a world-scale canola crushing facility with a production capacity of 200,000 tonnes annually.

The plant employs in excess of 70 persons and has crushed up to 40% of the canola produced in the Peace River Region. ADC first authorized a start-up loan guarantee in 1976. In 1983 ADC commenced making direct loans to NARP. The company incurred heavy operating losses and was placed into receivership by April, 1985. The Government of Alberta has agreed to keep the plant operating until at least mid-1987. The total amount of loans approved for NARP approximately equals all non-NARP business. As of February 28, 1987 the balance outstanding to NARP was $47.0 million.* An amount of $51.7 million has been set aside by ADC as a future agribusiness loss reserve, the majority of which is for the NARP account.

ADC - ITS CORPORATE STRUCTURE

From all outside appearances ADC is organized much like any other commercial operation. As shown in figure 4.23, the Corporation is headed by a General Manager and Board of Directors. However, unlike the commercial lending corporations, very little final lending authority has been delegated to the operations management of the Corporation.

Figure 4.23 - ADC Corporate Structure, 1986



Source: ADC Review Committee, 1987

All lending and all appeal decisions are ratified by the Board and it has acted largely in an administrative capacity rather than in an advisory and policy monitoring role. The Committee has concluded that this method of operation may have hindered ADC from operating as a prudent lender and may have been the cause of differences of opinion between management and the Board of Directors.

* This is made up of $35 million in direct loans and $12 million in a letter of credit.

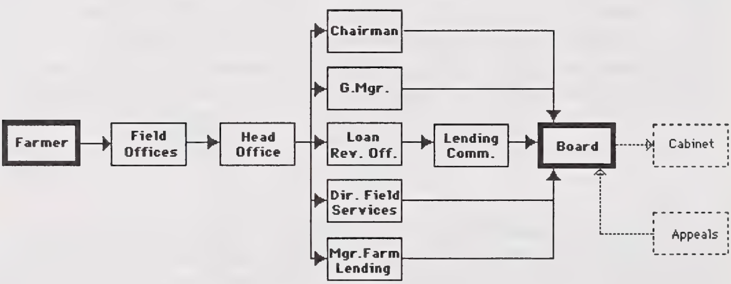
The Corporation currently has 184 employees, 108 of whom are based at the Head Office in Camrose. The remaining 76 employees are located throughout the province at 6 regional and 33 district offices. Field employees share office space with government departments such as Alberta Agriculture.

THE LOAN APPROVAL PROCESS

The loan process commences with a producer contacting an ADC loans officer. The loans officer performs a detailed financial analysis of the producer's operation, complete with applicable projected cash flows. An application is completed by the loans officer in cooperation with the producer. The loans officer may decline the application or at least recommend decline of same. The application is next forwarded to the Camrose Head Office for processing. Normally the ADC Regional Offices are bypassed. The maximum direct loan limit is $200,000 per farm family applicant. The loan is not transferable. A maximum of $600,000 can be borrowed in a partnership or corporate arrangement.

As shown in Figure 4.24, the application may be routed in a variety of ways from the loan review office to its final destination at the ADC Board level. The route is determined by the size of the loan involved and by specific characteristics pertaining to the application.

Figure 4.24 - The ADC Loan Application Process



Source: ADC Review Committee, 1987

Normally the application is channeled through the Farm Lending Committee, but in all cases the application must be ratified by the ADC Board. The Board has an approval level of $500,000. Larger loans must be ratified by the provincial Cabinet. It is assumed that funds normally are not dispersed until the application has in fact been ratified.

In the event that the application is declined, the applicant has access to a two level appeal process. If the appeal is approved at the first level, which may be handled by a peer group such as an Agricultural Development committee, the application is once again placed before the Board. The Board may elect to ratify or decline the appeal. Should the appeal be declined, no immediate official recourse is open

to the applicant, although at times MLA's have been requested by constituents to become involved in the case.

ADC SUPPORT PROGRAMS

The Corporation has developed a number of support programs for its borrowers. These programs are in addition to the direct lending and loan guarantee programs presently in effect.

Group Life Insurance

Any direct loans approved by ADC can be life insured by the borrower. This is a voluntary program and is administered by a competitive life insurance firm. Premiums depend on the age and health of the borrower. Life insurance policies contain a disability clause, covering the payment of premiums in the event of a disability by the borrower.

Fire Insurance

All buildings used as security by ADC are covered by fire insurance. Premiums are the responsibility of the borrower.

Disaster Assistance Loan Programs

This program is intended to aid producers which have suffered loss due to an agriculture related disaster. It is a lending program rather than a compensation program. Special rates of interest and repayment privileges may be authorized by ADC and funds can be used for a variety of purposes, including building reconstruction, livestock replacement and debt consolidation. Disasters due to commodity price collapses are not eligible under this program.

The ADC "Advisor" System

Under the Beginning Farmer program, ADC has made available the services of an "advisor" to the borrower. Normally the "advisor" is a neighbor, who is expected to give financial and operating advice to the young borrower. Although well intended as a support program, it has not been enforced by ADC.

The Enterprise Counselling Program

In 1983 ADC introduced the Enterprise Counselling program as a response to an increasing problem in loan arrears. Under this program, financial counsel is made available to an ADC borrower or a non-ADC borrower. The financial

counsellor is retained by ADC and is instructed to thoroughly analyze the producer's operation and to make recommendations as to loan restructuring, debt payments and potential sources of profitability. On a one-to-one basis the counsellor and the producer are given an opportunity to arrive at a solution in the best interest of the farmer. Counsellors may be farmers, businessmen or professionals with related experience in agriculture and/or agricultural finance. As of March 1987 approximately 500 producers had made use of this ADC support program.

Participation in Rural Agricultural Development

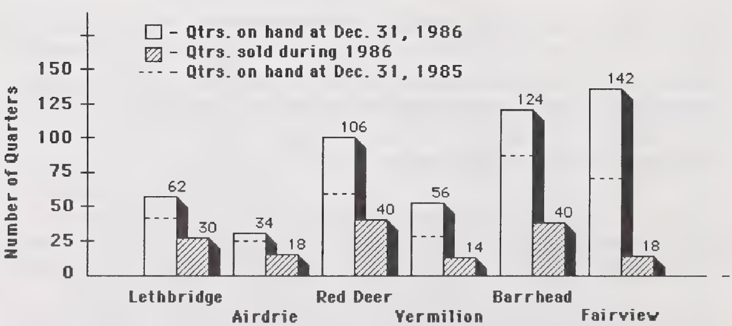
On occasions, when a producer discusses a financial problem with personnel of Alberta Agriculture, ADC staff may be called upon to provide specific advice. ADC staff have estimated that for every one borrower nearly 20 others are given applicable financial counsel. ADC staff is also involved in financial management education through increasing involvement with programs sponsored by others, eg. the Agricultural Lenders Workshop and the Gear-Up-Financially program.

ADC AS A LAND OWNER

As a result of loan restructuring and foreclosure proceedings, ADC has become the reluctant owner of a substantial land base. By February 28, 1987 it had received title to approximately 600 quarters of land and if the projections pertaining to loan restructuring become a reality, it may end up with 3000 quarters of land by 1991.

Concern has been expressed during the hearings by a number of parties that the continuous sale of ADC land might adversely affect land prices. It must be pointed out, that the sale of ADC land constitutes less than 3% of the total annual land sales in Alberta and is therefore not expected to have a significant effect on land prices.

Figure 4.25 - ADC Land Holdings and Sales
(By Region)



Source: ADC Research and Statistics, 1987

ADC land holdings and sales data by region is detailed in figure 4.25. Approximately one third of ADC's land holdings have been leased to local farmers as of March 31, 1987.* Income from land leases has been estimated at nearly $1.0 million in 1986.

ADC - THE REVIEW COMMITTEE'S PERSPECTIVE

The Review of the role and mandate of ADC has not been limited to public hearings and written submissions, but has involved everyone within the Corporation, either directly or indirectly. Hearings were conducted separately with the ADC Board, ADC Head Office management, as well as ADC Regional and District office staff. Discussions and presentations focused on the current situation and future roles of the Corporation.

The proposals made by the Board, management and staff were well presented. The presentations confirmed a sincere dedication to agriculture by all parties involved. In the process it became evident that staff, management and the directors were able to communicate freely about their view of the Corporation's role and mandate. There is no doubt that ADC personnel have operated in a professional and disciplined manner in spite of the uncertainties accompanying a review.

The Committee's views and perspectives are outlined as follows:

ADC Past Performance

(1) **Response to Industry Demands**

From 1972 to 1978 the Corporation responded to the needs of the agricultural industry in an apparently appropriate manner. The Committee, however, questions the wisdom of the decision in 1980 to switch the Corporation from a lender of last resort status to a direct lending role thereby participating, with other lenders, in potentially escalating land prices at the expense of prudent lending policies. The Committee submits that it would have been advantageous for both the producers and the Corporation, had ADC maintained its farm development role. The altered mandate along with the once-in-a-lifetime loan limit policy is partly responsible for the current problem with arrears and for the debt servicing problem presently facing borrowers.

(2) **The Cost of Operations**

The actual cost to the Government, incurred in the operation of ADC over the past 15 years up to February 28, 1987 is $571 million, as detailed in table 4.05.

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*As of May, 1987, 485 quarter sections were leased to farmers, 21 were custom farmed and 133 were in the process of being sold or were unsuitable for lease due to land improvement requirements.

Table 4.05 - ADC 15 Year Cost of Operation

$ 209 million	-	Incentives to Beginning Farmers
54 million	-	General operations
89 million	-	Interest deficiency (In vs Out)
38 million	-	Write offs
37 million	-	Anticipated loss on property repossessed
20 million	-	Anticipated loss on implemented guarantees
68 million	-	Loss reserve for security deficiency
48 million	-	General loss reserve
8 million	-	Cash less accounts payable
$ 571 million		

The above cost is recovered through interest paid on the Alberta Heritage Savings Trust Fund debentures in the amount of $689 million, allowing the Government to realize a net return on its investment of approximately 1% annually.

(3) Policy Implementation

The ADC Board of Directors is responsible to the Government of Alberta. Its function is to monitor and interpret the policies by which the Corporation is to operate. The Board has no direct authority to set major policies although it can and should make recommendations.

Board responsibility has been clearly defined in the Agricultural Development Act, but the Committee is not clear as to how policy changes have been implemented in practice. There is evidence that the present role of ADC is more defined by regulations, equity limits, asset limits and procedures than by the Act or general Government policy directives.

During the period from 1979 to 1986, policy as well as administrative and appeal functions were essentially handled by the Chairman (C.E.O.) appointed by the Minister of Agriculture. The Committee submits that this was not the intention of the Act, although the action might have been necessary to enable the Corporation to meet the immediate demands of the industry as perceived by elected representatives.

(4) Assisting the Beginning Farmers

There is evidence that ADC policies and programs have indeed encouraged new entries into agriculture. Since 1972 many young farmers have established commercially viable operations. It would appear that ADC has had a generally positive influence on the farming community.

positive influence on the farming community.

(5) Agribusiness Development

Although ADC has made more than 500 agribusiness loans, the overall effect on agribusiness development has been minimal. The current direct loan portfolio of \$60.7 million (\$47.0 million of which is to NARP)* is not significant in an industry which presently has assets of \$2.5 billion and which generates nearly \$4 billion annually in revenue. Among participants in the agrifood processing sector of the industry, the involvement of ADC is rarely mentioned. The Committee contends that the mandate of ADC does not readily lend itself to major development of the agribusiness industry and that development in general is being hindered by circumstances beyond the control of the Corporation. ADC did, however, assist low income agribusinesses at times when outside influences may well have limited or even terminated their activity.

(6) Assisting Low Income Farmers

The original mandate of ADC intended that ADC partly concentrate on assisting low income producers. However, statistics indicate that the majority of loans were made to producers within the higher income bracket. The Committee contends that ADC's practice in this matter has probably been in accordance with prudent lending standards. The loss and arrears scenario and the consequent problem for both the borrower and the lender would have been much worse if the original intention of the mandate had been strictly adhered to.

(7) Management and Staff Qualifications

During the hearings, frequent mention was made of the lack of training and low qualifications of ADC staff. The Committee submits that during the early 1980's, ADC indeed suffered from staff problems. To a large extent, this problem appears to have been rectified. Several members of the management team and field staff have become adept at the application of financial counsel. Some have become expert in restructuring loans, although their success has been limited by inflexible regulations.

(8) Head Office Operations

The Review Committee identified a number of management problems which need to be addressed:

- *Inadequate statistical research and analysis in relation to the size of the Corporation.*
- *A lack of internal audit procedures.*
- *Inefficiency in the handling of paper flow, staff training and staff evalu-*

* This is made up of \$35 million of direct loans and \$12 million of a letter of credit.

(9) The Collection of Arrears and Loan Restructuring

ADC is not able to monitor its loan accounts on a regular basis. Since it does not provide operating funds, the Corporation behaves more like a mortgage company than a bank and subsequently the monitoring of operating accounts is limited to an annual review. This problem may be partly responsible for the high percentage of loans which are in arrears, 34% of producer accounts and 50% of agribusiness accounts. Efforts are under way to collect the arrears, however in many cases the equity involved is not sufficient to cover past due interest and outstanding principal.

It is the Committee's view that the Corporation's present policy on collections should basically be maintained. It is a firm but equitable policy and discourages action by producers to place themselves intentionally in arrears. If the policy can be faulted in one area, it is that insufficient emphasis is being placed on creative alternative financing possibilities. Flexibility in loan restructuring is certainly to be encouraged and more authority to negotiate settlements should be delegated to field staff.

(10) Land Disposal

The Corporation's practice has been to list for sale all repossessed properties until such time as an acceptable offer has been received. The Committee contends that land should be listed for a specific time only, after which alternate action is appropriate, thereby providing a clear signal to speculators in the community that the property is not necessarily for sale until land prices bottom out. The present rate of land sales of 150 quarter sections per year could probably be increased, without affecting land prices in general. The sale of ADC land constitutes less than 3% of the total land sales throughout the province.

(11) MLA Involvement

There is a perception in the industry that involvement by MLA's has taken place, both in the loan application and in the appeal process. The majority of borrowers as well as the ADC board, management and staff discourage such practices. The Committee submits that such involvement creates perceptions of favoritism, is unfair to the vast majority of borrowers and may create inconsistencies within ADC.

(12) Corporate Structure

All final authority pertaining to lending, loan appeals and loan restructuring is vested in the ADC Board of directors, effectively encouraging the Board to assume an administrative role. The image which has been created is that of a large corporation being run by a committee, complete with the many inefficiencies that are evident in such a structure. This structure may be a reason for

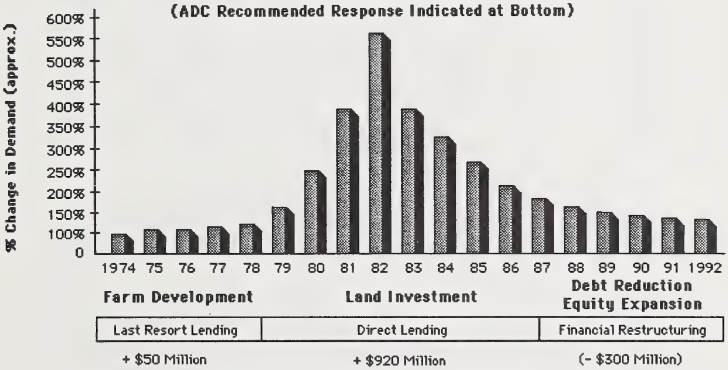
problems with bureaucracy and is suspected of being a cause of friction between personnel at various levels of responsibility within the Corporation. This issue needs to be addressed and the Committee is of the opinion that the structure of the Corporation must be altered, allowing for singular leadership throughout the organization.

The Future Role of ADC

As shown in figure 4.26 the capital needs of the industry will diminish over the next five to ten years. The Alberta agricultural loan portfolio in fact is expected to decrease from the $5.38 billion level in 1986 to approximately $3.0 billion in 1992. Debt reduction and equity expansion will be key factors in agricultural finance for the foreseeable future.

Figure 4.26 - Industry Demand for Capital

(ADC Recommended Response Indicated at Bottom)



Source: ADC Review Committee, 1987

The Committee examined a number of options with reference to the future potential role of ADC. It examined the option of aggressively expanding ADC lending activity, but is convinced that this option would force ADC to respond contrary to the real needs of the agricultural industry. Although there will be a continued requirement for additional direct lending, the primary need is characterized by debt reduction, not debt expansion. This option would also force ADC to aggressively compete with existing commercial lenders.

The Committee has concluded that the best possible assistance which could be offered to the industry is assistance in the area of financial restructuring. As such, the Committee strongly favors a future role of ADC which would facilitate this specific function. In fact the Committee is recommending that ADC heavily concentrate on the restructuring of that portion of its portfolio which is presently in arrears.

This concentration of activity may have to be done at the expense of carrying out other functions, responsibility for which can be assumed by other lending institutions.

There are major difficulties in projecting the long-term need for a government agency in agricultural finance. However, such an agency can serve a useful role by focusing its assistance on producers who can demonstrate ability to work out current financial problems and who can develop proper financial, production and marketing management skills.

CHAPTER 5

OPTIONS AND OPPORTUNITIES
COMMITTEE RECOMMENDATIONS

CHAPTER 5

OPTIONS AND OPPORTUNITIES
COMMITTEE RECOMMENDATIONS

INTRODUCTION

The Committee has completed its task as set out by the Associate Minister of Agriculture in the mandate of August 1986. As shown in figure 5.00, the only function as yet to be performed is a complete operations review of the ADC corporate structure and the Corporation's staff, pending a decision on the recommendations.

Figure 5.00 - Mandate Review Status
(ADC Review Committee, 1986/87)

Committee Mandate	Completed
Review the original purpose and intent of ADC.	✓
Review the current agricultural lending programs available to Alberta producers.	✓
Assess the current financial status and needs of the agricultural industry.	✓
Review the corporate structure, administration, and program delivery system of ADC.	*
Review new and innovative mechanisms for financing agriculture.	✓

* Partly completed. A final ADC operations review awaits adoption of the recommendations.

In the course of the review the Committee assembled significant data on the current environment and future projections of agricultural finance in Alberta. The Committee conducted public hearings in more than 30 locations throughout the province, and implemented discussions with ADC directors, ADC management, ADC field staff and representatives of the commercial lending industry. Submissions, both verbal and written, were received from producers, producer organizations, government officials, educators, financial counsellors, members of

the agribusiness industry, minority groups, bankers and many other interested parties. The majority of participants used the hearings to express concerns about the state of affairs in agricultural finance. Several made excellent recommendations, that showed insight into the current situation and provided material which was used by the Committee in examining options for the future.

After participating in the hearings and after additional research by its staff, the Committee has identified many of the problems facing agriculture. In its recommendations, the Committee has sought to recommend action which provides for both long-term and short-term alleviation of the problems. The most difficult task has been to separate the real needs of the industry from its short-term desires. To maintain a balance between social and economic solutions has not always been easy.

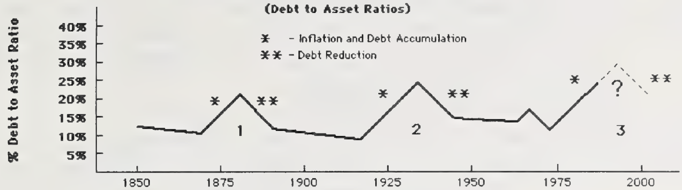
Both before and after the public hearings, members of the Committee met with representatives of the commercial lending industry. This action was taken to determine the role which the chartered banks and other financial institutions intend to play in agricultural finance over the next ten years. In dealing with proposals on the future of ADC, the Committee decided that the programs needed by agricultural producers and the agribusiness industry are more important than the delivery system. Both government agencies and other lenders have played important roles in the development and maintenance of agriculture. The Committee's intent is to implement a means by which both sectors of the lending industry can apply their specific strengths to once again bring viability and profitability to agricultural operations.

SUMMARY OF COMMITTEE VIEWPOINTS

Each chapter contains a summary of Committee conclusions and viewpoints dealing with those issues addressed in that particular chapter. This section deals with the major issues which affect the recommendations. The conclusions reached by the Committee do not reflect personal viewpoints but have been arrived at collectively, after much discussion and extensive study and research by the Committee and its staff.

- *The Committee has concluded that the primary issue affecting the present state of agricultural finance in Alberta is excessive debt. This is evidenced by the historically high value of the industry debt to asset ratio, approaching 26%. The Committee is of the opinion that debt financing is an effective tool in agriculture, but that excessive debt is not supportable. Alberta producers are experiencing severe problems in servicing the present debt load out of current income.*

Figure 5.01 - Historical Trends in Agriculture
(Debt to Asset Ratios)

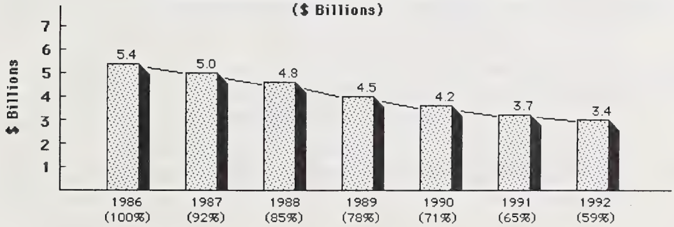


Source: ADC Review Committee, 1987

- *Traditionally, debt service problems have been solved through increased productivity and increased income levels. However, incomes are steadily declining and consequently debt levels should be reduced as well. As shown in figure 5.01, there is evidence that at specific times throughout history, the agriculture industry has entered periods of time characterized by major debt reduction, such as in 1880/90 and 1930/40. The Committee believes that agriculture will probably enter, or already has entered, a similar period of adjustment.*

- *Governments have historically prolonged periods of adjustment by assisting farmers at the income level rather than targeting their funds at a solution for debt reduction. For the foreseeable future, debt reduction should and is expected to take place. The Committee anticipates that the current outstanding loan portfolio of $5.38 billion could decline, through financial restructuring, in a fashion similar to the levels projected in figure 5.02. In the past, these major debt reduction trends have been of such force that even the grandest of public support schemes could not have stopped them.*

Figure 5.02 - Industry Agricultural Debt Projection
($ Billions)



Source: ADC Review Committee, 1987

- *The Committee is not suggesting that debt reduction is the only solution to the present financial stress situation. It is firmly convinced, that necessary measures must be taken to increase producer income levels. The development of alternative markets for producer products is a key requirement and the "agribusiness opportunity" is seen as having major potential in that area. Aggressive development of the agribusiness industry is mandatory.*

- *The Committee is suggesting however, that unless the issue of excessive debt is addressed first, a crisis in agricultural finance may develop. The Committee contends, that ADC should concentrate on debt reduction issues, through financial restructuring. Its activities should be aimed at the 30% of its producer borrowers, who are presently in financial difficulty. ADC has demonstrated strength in loan restructuring, although it has been severely stifled by inflexibility in its negotiating options. Debt reduction, through positive financial restructuring, is seen as a major task.*

- *The Committee is additionally convinced, that in the best interest of the producers and in the best interest of agriculture, the responsibility for all future lending activity should be assumed by the commercial lending sector, including FCC and the Treasury Branches. The commercial lenders already handle all of the operating capital needs of producers and presently are responsible for nearly $4.0 billion (74%) of the total outstanding agricultural portfolio. This amount is guaranteed, potentially, up to $2.0 billion by the Alberta Government through the Alberta Farm Credit Stability Program.*

- *The Committee is also concerned with the short-term needs of the industry. In view of this, it is making a recommendation with respect to extending the existing Beginning Farmer incentive program for another three years, applicable to those producers transferred to other lenders. It is intended that the extended incentive program will be applied also to those ADC borrowers whose incentive period has expired, provided the accounts are transferred to commercial lenders.*

- *The Committee has examined the role of business management in farming and concluded that the business management skills of many producers need upgrading. It is recommending that the availability of financial incentives for young beginning farmers be tied into specific financial management education qualifications or proof of management skills.*

COMMITTEE OBJECTIVES

In determining what action should be taken by the government and by the industry with reference to agricultural finance, the Committee set out to achieve three(3) specific objectives:

(1) ***The Alberta producer must be given more options and opportunities*** *for debt reduction. This includes alternative forms of debt financing, equity financing, the sale of assets and opportunities for increased production and alternative markets.*

(2) ***The Agribusiness industry must be given greater opportunity for aggressive development,*** *facilitating substantial increase in its output, particularly in agrifood processing. In setting this objective, the Committee maintains that options for new producer markets will in turn be positively affected.*

(3) ***ADC activity should be targeted*** *at the real needs of the producers. Financial restructuring is seen as a major industry need, and ADC activity should be directed at this particular requirement, specifically among the many beginning farmers in its portfolio.*

OPTIONS FOR PRODUCERS

Recommendations on Equity Financing Programs

Whereas:

- *`It is anticipated that a large portion of the necessary debt reduction can be accommodated through direct cash purchases and third party equity financing.*

- *Many sources of private funds are expected to become available for land purchases over the next few years as land prices stabilize.*

- *Producers need access to investor funds to facilitate restructuring, expansion and development.*

- *There are a number of government imposed barriers restricting such investment.*

- *The industry has shown strong interest in equity financing programs.*

Therefore the Committee recommends;

(1) *That the Government encourage and support the implementation of equity financing programs within the private sector of the economy and that guidelines be implemented to ensure that those participating make a positive contribution to the future of agriculture.*

(2) *That foreign ownership restrictions on Alberta land be reassessed.*

(3) *That access by Alberta farmers to funds from qualifying investors under the Canada Immigration Act be enhanced.*

(4) *That the Alberta Government assure potential investors of long-term stability in agricultural investment, by indicating its commitment to further de-regulate capital markets.*

(5) *That the Government confirm its intention not to distort the market place, by refusing to own a land bank or act as a major purchaser of land.*

(6) *That the Government, through financial support, encourage the creation of an equity finance corporation prototype,to be privatized at a later date.*

Recommendations on Vendor Finance Programs

Whereas:

- *There is a need to provide opportunity for the use of local farm equity and funds in the intergenerational transfer of land.*
- *Vendor financing is considered to be an acceptable alternative method of debt financing.*
- *Vendor financing is an alternate tool for asset liquidation by retiring farmers.*

Therefore the Committee recommends:

(7) *That the Government of Alberta provide a guarantee to vendors, covering a vendor mortgage to an appropriate level of risk. This level can be a percentage of productive value, a multiple of assessment value, or can be determined on an actuarily sound insurance basis.*

(8) *That the Government of Canada be requested to approve the exemption of the vendor's mortgage income and the borrower's interest expense from income tax obligations. An appropriate arrangement similar to the Small Business Development Bonds can be structured for these mortgages.*

General Recommendations

Whereas:

- *Lenders other than ADC should continue their involvement in agricultural finance.*
- *The next five to ten years will provide a formidable business management challenge to agricultural producers.*
- *Financial counselling services will be required by producers continually in the future.*

Therefore the Committee recommends:

(9) *That the Government continue to make available professional financial counsellors to assist producers in working out debt and debt service problems.*

(10) *That the Government increase its emphasis on the development of the current agricultural business management education system in the province.*

(11) *That the Government continue to encourage the involvement of private and commercial lenders in agriculture, including involvement in financial restructuring.*

A New Incentive Program for Beginning Farmers

Whereas:

- *It is in the long-term public interest to encourage young, well qualified new entrants to agricultural production.*
- *ADC beginning farmer programs have received favorable comments from the industry.*

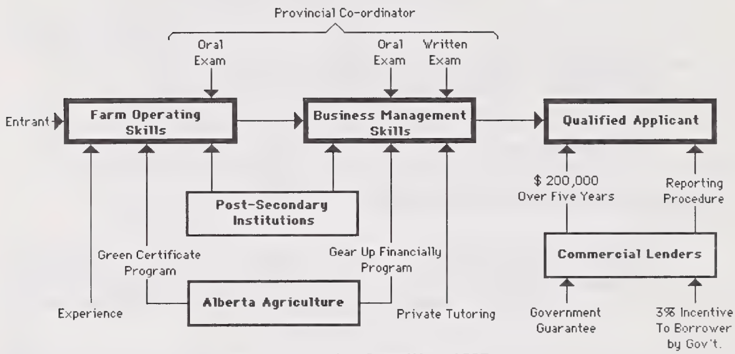
- *Producers expressed concern that incentives should only be made available to qualified applicants.*

- *The need for business management skills has become clearly evident, particularly among beginning farmers.*

Therefore the Committee recommends:

(12) *That the Government of Alberta implement a new incentive program, through qualified commercial lending agencies , in a format as presented in figure 5.03.*

Figure 5.03 - The Integration of Credit and Education



Source: ADC Review Committee, 1987

(13) *That under this program the Government provide lenders a guarantee of up to $200,000 for qualified applicants, to be used for the purpose of obtaining intermediate and fixed assets. It is intended that the draw-down period for the loan be extended over five years.*

(14) *That the program be open to applicants:*

- *Who can provide confirmation of financial and production management proficiency.*

- *Who are under the age of 35 and who have not previously participated in an Alberta beginning farmer incentive plan.*

(15) *That an annual interest incentive of 3% be made available to participating farmers, contingent upon confirmation by the lending institution that payments are current to agreed terms and that a prescribed regular financial reporting procedure has been adhered to. The incentive rates are to be for a five year period.*

(16) *That the application be considered for approval regardless of marital status or sex of the applicant.*

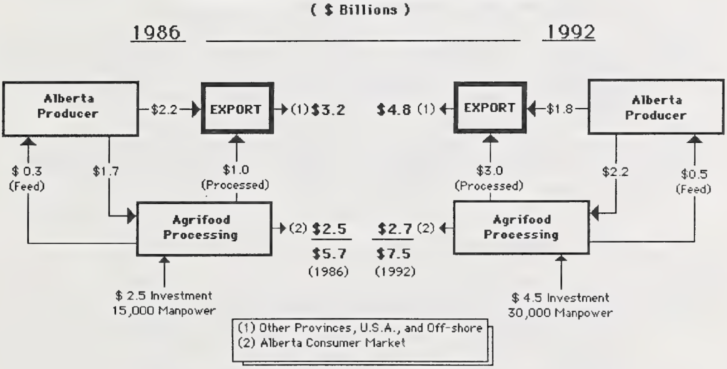
(17) *That the Government of Alberta appoint a Co-ordinator to administer the certification program.*

(18) *That consultation be initiated with Alberta post secondary institutions and with Alberta Agriculture to implement a standard examination format.*

OPPORTUNITIES IN AGRIBUSINESS

The Committee is firmly convinced that agricultural production in Alberta will develop over the foreseeable future in direct proportion to the development of the agribusiness (agrifood) sector. Increased agrifood processing is seen as a key opportunity to serve as an alternate market for producers. As shown in figure 5.04, the 1986 annual delivery of grain and livestock products to the market place

Figure 5.04 - Agricultural Market Development
($ Billions)



Source: ADC Review Committee, 1987

was $3.6 billion. Unless the agribusiness sector is developed, the export opportunities open to Alberta producers will steadily decline. The Committee has projected that the potential exists to actually increase the annual gross income to producers to $4.0 billion and in the process create an additional 15,000 agriculture related job opportunities. Much of this development can be attached to regional economic priorities.

To accomplish the 1992 projection of nearly $6.0 billion in revenue to the agrifood industry along with $4.0 billion in revenue to producers, a number of important changes must be implemented in the agribusiness industry. Currently Alberta is generating agribusiness revenue at only 50% of its potential capacity.

Recommendations on the Removal of Restraints

Whereas:

- *Current regulations and restrictions prevent Alberta from competing fairly in the agribusiness industry, as compared to other provinces.*

- *Present Canadian Wheat Board pricing policies hinder the development of Alberta agribusiness.*

- *The direct payment of Federal Crow subsidies to the railways has placed a severe restraint on Alberta agribusiness development.*

- *More can be accomplished by the removal of restrictions than by additional Government capital investment into the industry.*

Therefore the Committee recommends:

(19) *That the major thrust of the Provincial Government be the creation of a "level playing field", allowing the agrifood industry to compete fairly on a national and international basis.*

(20) *That urgent consideration be given to offset programs such as the Alberta Feed Grain Adjustment Program, aimed at those industries affected adversely by restrictive, unfair legislation.*

(21) *That the Alberta Government support its producers in a challenge of the unjust Canadian Wheat Board restrictions on the purchase of domestic grain for domestic food processing. These restrictions have discriminated against Canadians in the Prairie provinces.*

(22) *That every effort be made to remove restrictions affecting the transportation and export of agricultural goods. Transportation is the major cost differential in a competitive North American market place and Alberta processors need every opportunity to freely access this market.*

Recommendations on Agribusiness Development

Whereas:

- *The necessary infrastructure is being developed to support a healthy agribusiness industry.*

- *The opportunities in the agribusiness industry are not widely recognized by potential investors and scientists.*

- *The development of the industry is not only of immediate importance to producers but is a necessary requirement for the long term health of agriculture and rural Alberta.*

- *Agricultural diversification should be a priority item for the Government of Alberta.*

- *There is evidence of a strong desire within government circles and within the industry to enhance the agrifood processing industry.*

- *The present program delivery by the Government, including ADC programs, are considered by the industry to be fragmented. Agribusiness development activities are not effectively co-ordinated.*

Therefore the Committee recommends:

(23) *That a co-ordinating agency be established to aggressively promote the development of the entire agrifood industry. Such an agency must have the vision and authority to assist the development of this industry to its potential. It should have direct access to existing Research and Development programs, funding, testing and marketing, in order to streamline the procedures for new business development. The agency should be limited in size, but have authority to recommend changes to and have access to all other government programs on behalf of new business ventures.*

(24) *That major emphasis be placed on research and development of processes and products utilizing Alberta grown commodities. The Committee recommends the implementation of grants to encourage the use of Alberta grown products in nutritive processing.*

(25) *That the Government of Alberta, through the Agricultural Research Institute, place emphasis on market research and development of processes for the agrifood industry.*

(26) *That a dual marketing system be established for grain, to encourage the development of local processing. This should allow Alberta to achieve its potential in the world market for processed products derived from food grains.*

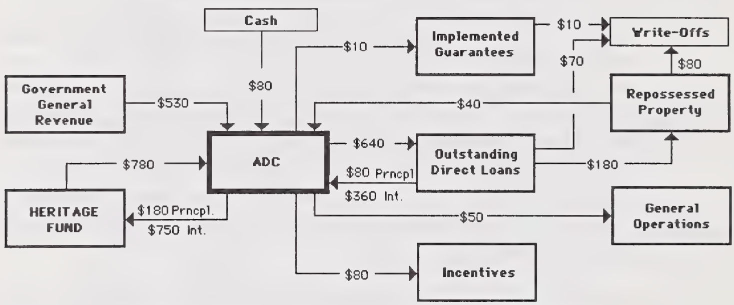
(27) *That expanded efforts be undertaken to identify and develop international trade opportunities to market Alberta grown and processed products.*

(28) *That the agrifood processing industry be provided greater access to equity capital through a special 5 year incentive period for investors in new agribusinesses to be administered under the existing Alberta Stock Savings Plan. This will encourage the flow of new investment and growth capital into Alberta enterprises.*

THE TARGETING OF ADC ACTIVITY

The Committee examined a number of options as to the future role of the Corporation. It examined the option of aggressively expanding ADC lending activity, but is convinced that this option would force ADC to respond contrary to the real needs of the agricultural industry. The need is characterized by debt reduction, not debt expansion. In addition such a move would be costly to both the borrower and the lender as illustrated in figure 5.05 and table 5.00.

Figure 5.05 - Projected ADC Capital Funding ($Millions)
(1986/1991 - Scenario: ADC as an Aggressive Lender)



Source: ADC Review Committee, 1987

Table 5.00 - The Projected Cost of Operation - 1986/1991
(Scenario: ADC as an aggressive direct lender)

$ 80 million	-	Incentives to Beginning Farmers
10 million	-	Implemented guarantees
50 million	-	General operations
390 million	-	Interest deficiency (In vs. Out)
160 million	-	Write offs
80 million	-	Cash deficiency
$ 770 million		

The Committee is convinced that the best possible assistance which could be offered at this time to the agricultural industry is assistance in the area of financial

restructuring through debt reduction and equity expansion. Such assistance has both short term and long term benefits. The Committee strongly favors a role for ADC which would facilitate this function, specifically directed at the restructuring of that portion of the portfolio which is presently in arrears or security deficient. To function effectively, the Corporation must be intimately involved in developing "work-out" plans for each account which is, or which will soon be, in difficulty.

Recommendations pertaining to ADC

Whereas:

- *The current need of the agricultural industry can best be served by facilitating debt restructuring.*

- *The percentage of ADC accounts in arrears is greater than the industry average.*

- *The demand for new long term capital will be declining.*

- *There is a need for complete integration of loans and operating plans through commercial lenders.*

- *Under a mandate of aggressive further lending, the high cost of future operations is of concern.*

Therefore the Committee recommends:

(29) *That the mandate of ADC be changed to emphasize its role in financial restructuring.*

(30) *That for the immediate future, ADC's exclusive role be that of aspecialist in financial restructuring. It is intended that ADC focus on its present portfolio of accounts in arrears, thereby providing assistance to those producers most urgently in need. The intent of financial restructuring is to place the producer in an improved equity position.*

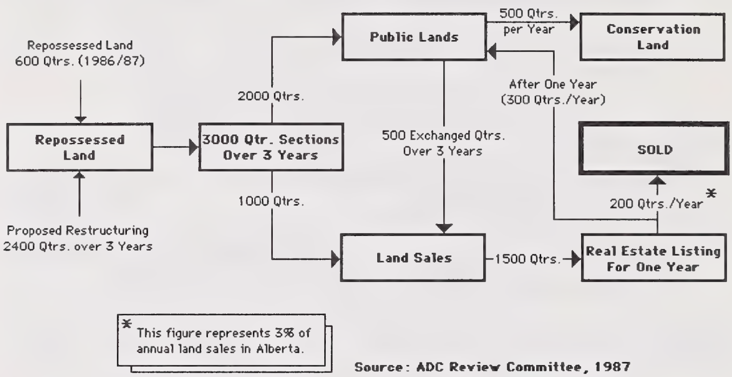
(31) *That ADC support the integration of its current accounts portfolio with the commercial lending sector.*

(32) *That ADC refrain from further lending activity as soon as programs are in place for others to assume this role. Its current lending policy must be strengthened to prevent borrowers from taking advantage over the short term.*

(33) *That all ADC accounts, not immediately integrated with commercial lenders be reviewed to identify areas where assistance might be required. It is intended that accounts be given intensive management assistance to enhance the credit worthiness, prior to their integration with the commercial lenders.*

(34) *That ADC follow an orderly method of disposal of its current and future repossessed land base, in accordance with the plan detailed in figure 5.06.*

Figure 5.06 - Proposed ADC Land Disposal Process



Source: ADC Review Committee, 1987

The integration of ADC accounts with Commercial Lenders

Whereas:

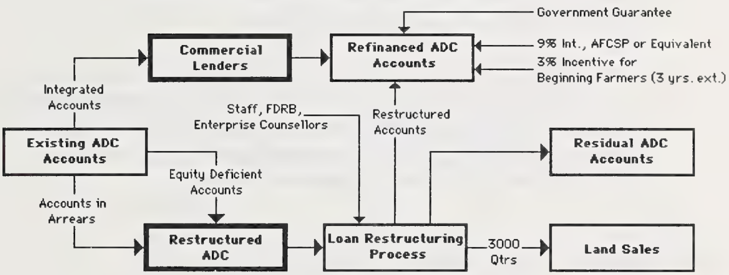
- *The commercial banks and private sector of the lending industry, including the Treasury Branches and FCC, have developed improved agricultural programs and expressed continued interest in serving the Alberta agricultural credit market.*
- *The majority of producers in Alberta, including ADC borrowers already deal successfully with the commercial banking system.*
- *Integration of ADC accounts with the commercial lending industry will provide better co-ordinated financial management structure.*

Therefore the Committee recommends:

(35) *That current up to date ADC accounts be encouraged to transfer to commercial lenders.*

(36) *That interest incentives presently in effect for transferred ADC accounts be through the commercial lenders and that all transferred accounts be made eligible for 9% financing complete with a Government guarantee under terms similar to those in effect through the Alberta Farm Credit Stability Program.*

Figure 5.07 - Proposed Integration of ADC Accounts



Source: ADC Review Committee, 1987

(37) *That the 3% incentive program presently in effect for ADC Beginning Farmer accounts be extended for an additional three year period, provided the accounts are integrated with the commercial lender accounts.*

(38) *That those Beginning Farmer accounts whose incentives have terminated be re-instated as being eligible for another three years of incentives. The retro-active incentives may be used by the recipient, at his discretion, to reduce the outstanding debt principal.*

Additional ADC activity

Whereas:

- *A certain time limit has been set in which to integrate existing accounts.*
- *Some accounts cannot be integrated.*

Therefore the Committee recommends:

(39) *That the ADC corporate structure be immediately re-organized to function effectively and efficiently in its new role and that this be initiated by the appointment of an administrator directly responsible to the appropriate Minister.*

(40) *That the role of the ADC Board be amended to function in an advisory capacity.*

(41) *That ADC make every effort possible to restructure and "work-out" each remaining account in three years. Restructured accounts are to be transferred to the commercial lenders.*

(42) *That ADC retain the responsibility for administering those residual accounts which cannot or will not be restructured or integrated with the commercial lenders. Every effort is to be made to keep the number of these accounts to a minimum and it is recommended that these accounts eventually be transferred to other lenders.*

CONCLUDING STATEMENT

The Committee intends that the eventual role of ADC will be determined at a later date, taking into account the success of the ADC loan restructuring program and the success of the proposed alternate programs and options to be delivered through the commercial lending sector. At this time the Committee does not foresee a compelling need for a future Government direct lending agency.

Depending on the implementation of the recommendations, an operations review and re-organization of the present ADC corporate structure is intended. The Committee strongly believes that the long-term interest of the agricultural industry will be served best by the implementation of these recommendations.

APPENDIX

LIST OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

List of Figures, cont.

APPENDIX A - TYPICAL FARM FINANCIAL STATEMENT AND OTHER DATA

(Category III operation - Financially Stable)

ASSETS		LIABILITIES		OTHER	
Cash on Hand	$ 26,000	Trade Accts. Payable	$ 12,500	Debt to Asset Ratio (DAR) = 0.1	
Accounts Receivable	6,000	WB Advances	15,000	Equity Level = 90%	
Grain Storage	100,000	Crop Insurance	1,500	Gross Farm Cash Receipts	$ 247,500
Feed Inventory	60,000	Operating Loans			
Livestock	30,000	Bank #1	5,000	Off-Farm Income	5,000
Machinery	145,000	Bank #2	10,000		
Personal Assets	45,000	Machinery Loan	-	Net Farm Income	46,000
Off-Farm Assets	30,000	Mortgages			
Land and Buildings		ADC - SW 30	25,000	Personal Withdr.	30,000
Home Qtr. SW 30	120,000	FCC - NE 30	15,000		
SE 30, NE 30	180,000			Interest	6,000
NW 30	90,000		$ 83,500		
Rented Land (2000 acres)	-			Princ. Payment	5,000
Total Assets -	$ 832,000	**NET WORTH** -	$ 748,500	Debt Service Ratio (DSR) = 1.91	

Note: Refer to figure 2.08 for category classification.

APPENDIX B - TYPICAL FARM FINANCIAL STATEMENT AND OTHER DATA

(Category II operation - Financially Stressed)

ASSETS		LIABILITIES		OTHER	
Cash on Hand	$ 6,000	Trade Accts. Payable	$ 25,000	Debt to Asset Ratio (DAR) = 0.26	
Accounts Receivable	16,000	CWB Advances	15,000	Equity Level = 74%	
Grain Storage	90,000	Crop Insurance	2,500	Gross Farm Cash Receipts	$ 225,000
Feed Inventory	60,000	Operating Loans			
Livestock	30,000	Bank #1	25,000	Off-Farm Income	-
Machinery	165,000	Bank #2	-		
Personal Assets	15,000	Machinery Loan	40,000	Net Farm Income	60,000
Off-Farm Assets	-	Mortgages			
Land and Buildings		ADC - SW 30	90,000	Personal Withdr	24,000
Home Qtr. SW 30	120,000	FCC - NE 30			
SE 30, NE 30	180,000			Interest	16,000
NW 30	90,000		$ 197,500		
Rented Land (1500 acres)	-			Princ. Payment	5,000
Total Assets -	$ 772,000	**NET WORTH** -	$ 574,500	Debt Service Ratio (DSR) = 0.76	

Note: Refer to figure 2.08 for category classification.

APPENDIX C - TYPICAL FARM FINANCIAL STATEMENT AND OTHER DATA

(Category I Operation - Practically Insolvent)

ASSETS		LIABILITIES		OTHER	
Cash on Hand	$ 3,000	Trade Accts. Payable	$ 42,000	Debt to Asset Ratio (DAR) = 0.82	
Accounts Receivable	6,000	CWB Advances	15,000	Equity Level = 18%	
Grain Storage	70,000	Crop Insurance	2,500	Gross Farm Cash Receipts	$ 140,000
Feed Inventory	50,000	Operating Loans			
Livestock	35,000	Bank #1	25,000	Off-Farm Income	-
Machinery	155,000	Bank #2	-		
Personal Assets	22,000	Machinery Loan	35,000	Net Farm Income	26,000
Off-Farm Assets	-	Mortgages			
Land and Buildings		ADC - SW 30	145,000	Personal Withdr.	20,000
Home Qtr. SW 30	110,000	FCC - NE 30	120,000		
SE 30, NE 30	170,000	Bank #2	90,000	Interest	40,000
NW 30	-	Past Due Interest	35,000		
				Princ. Payment-	15,000
Rented Land (1000 acres)	-		$ 509,500		
Total Assets -	$ 621,000	**NET WORTH** -	$ 111,500	Debt Service Ratio (DSR) = 0.11	

Note:Refer to figure 2.08 for category classification.

ABBREVIATIONS

ADC	-	Alberta Agricultural Development Corporation. Also referred to as AADC.
AOC	-	Alberta Opportunity Company, a development agency of the Alberta Government.
FCC	-	Farm Credit Corporation. An agricultural lending agency of the Government of Canada.
CWB	-	Canadian Wheat Board, responsible for grain export marketing. Headquartered in Winnipeg, Manitoba.
EEC	-	European Economic Community. An economic organization comprised of several West European countries.
A.D. Committees	-	Agricultural Development Committees, made up of farmer peers and agricultural specialists, used to consult in a number of agricultural matters.
AFCSP	-	The Alberta Farm Credit Stability Program.
AHSTF	-	The Alberta Heritage Savings Trust Fund.
CRTP	-	The Canadian Rural Transition Program.
CRT	-	Cathode Ray Tube. The formal definition of a computer monitor.
NARP	-	Northern Alberta Rapeseed Processors

DEFINITIONS

Farm gross cash receipts	The total amount of cash generated from the sale of farm products and livestock, from off-farm income and from government subsidies. Gross cash receipts are calculated before expenses.
Net farm income	Gross cash receipts less expenses, including depreciation, interest and taxes. Personal withdrawals excluded.
Realized net income	Net Farm Income plus income from off-farm sources. Living expenses excluded.
Government payments	All cash payments from Crop Insurance, Western Grain Stabilization Act program, supplemental payments, Provincial Income Stabilization plan, deficiency payments, input rebates and Federal Government subsidies.
Productive value of land	The price of land at which a producer can adequately service the capital investment from income derived from the land.
Vendor financing	The term used when a seller of an asset (usually land) provides the financing for the transaction, in the form of a mortgage or an agreement for sale.
Equity capital	The cash (or equivalent) investment injected into a business by its owners. Equity owners share in the risk and profit of a business.
Equity financing	The financing of a business, such as a farm, with equity capital.
Debt financing	The injection of borrowed capital into a business. Normally this capital is borrowed by the business, although the owners may guarantee the loan.
Viability	The potential of keeping a business or enterprise operating at a profitable level.
Loan authorization	The amount of a loan approved by a lender.

Draw-down	An authorized loan may be drawn down (taken out) by the borrower, in stages of certain amounts over a period of time. No individual authorization of the drawn down amounts is required.
Staged loans	A borrower may need a loan up to a certain limit, and withdraw smaller amounts, which are considered as separate loans and must be individually approved by the lender.
Write-down	Relates to the forgiveness of a portion of loan principal. Through negotiation with a borrower, a creditor may permanently reduce the original debt obligation of a borrower. This reduction in the debt is referred to as a "write-down". This is in contrast to a "set-aside" which would only be a postponement of repayment of part of the debt to a later date.
Write-off	Refers to a business or individual acceptinga loss of part of its assets. A common example would be when an accounts receivable, or other debt is judged "uncollectible".
Interest forgiveness	A term used to describe the action of a creditor whereby the borrower is released from paying a portion of the interest, usually past due interest.
Peer group	The people of approximately the same social group and occupation within the community.
Capitalization	Capitalization refers to the effect of changes in earning potential on property values. Any increase or perceived increase in the earning potential of a particular property will encourage investors to pay more for the property. The increased earning potential may be through increased price or decreased costs (input or ownership costs).
Gross margin	Refers to the difference (in dollars) between the output from an enterprise and the variable costs incurred in achieving the output.
Liquidity	Liquidity measures the ability of the business to meet short-term cash obligations as they come due. (The inability to pay such commitments can result in bankruptcy)

Solvency Solvency is a long run concept which relatesto the ability to pay all debts if assets were liquidated. It also relates to the ability of the business to withstand periods of adversity.

Insolvency Refers to the situation when a business has more outstanding debts than could be repaid with the proceeds from the sale of the business assets.

Bankruptcy A legal term referring to the status of an individual or company that is unable to pay debts as they are due and formal legal action has been taken to transfer the debtor's property to a trustee in bankruptcy.

An individual farmer must voluntarily make application under the Bankruptcy Act while a farming company can be forced into bankruptcy by its creditors.

Foreclosure The seizing of property to secure repayment of a loan, or payment of an overdue debt; the legal proceeding by which a mortgagee takes over possession of a mortgaged property.

Quit claim A quit claim is a negotiated arrangement between the mortgagor (the borrower) and the mortgagee (the lender) whereby they forego the necessary proceedings of foreclosure and the mortgagor voluntarily turns over the mortgaged property to the mortgagee.

Note: A number of these definitions have been provided by the Financial Management Section of the Farm Business Management Branch within Alberta Agriculture.

APPENDIX F - ALBERTA NET FARM INCOME ESTIMATES (1971-1986)

(Deloitte, Haskins & Sells, ADC Review 1986)

REVENUES	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Farm Cash Receipts	795	955	1,242	1,744	1,899	1,909	1,962	2,284	2,830	3,143	3,868	3,797	3,734	3,945	3,866	3,748
Income In Kind	16	18	22	21	20	25	26	31	36	40	40	37	37	39	36	36
Value of Inventory Change	17	26	204	(12)	100	81	(74)	99	73	151	66	(92)	(213)	(351)	(184)	70
Subtotal 1:	828	999	1,468	1,753	2,019	2,015	1,914	2,414	2,939	3,334	3,974	3,742	3,558	3,633	3,718	3,854
EXPENSES																
Operating Exp. before Int.	427	484	621	781	893	1,007	1,067	1,177	1,408	1,620	1,989	2,033	2,111	2,259	2,248	2,092
Depreciation	120	128	142	186	252	310	358	413	504	597	669	698	685	661	649	638
Subtotal 2:	547	612	763	967	1,145	1,317	1,425	1,590	1,912	2,217	2,658	2,731	2,796	2,920	2,897	2,730
MARGIN :	281	387	705	786	874	698	489	824	1,027	1,117	1,316	1,011	762	713	821	1,124
Interest	58	70	75	117	129	159	165	208	307	363	545	510	392	435	418	387
Net Farm Income before:	223	317	630	669	745	539	324	616	720	754	771	501	370	278	403	737
Living Expense	239	251	281	311	353	395	417	439	494	548	600	656	675	685	700	716
Non-Farm Income	81	108	141	196	223	245	271	312	402	445	564	585	564	543	530	520
Net Income After:	65	174	490	554	615	389	178	489	628	651	735	430	259	136	233	541
Net Income After/Farm:	1,296	3,486	9,867	11,213	12,511	7,954	3,677	10,205	13,241	13,870	15,825	9,299	5,621	2,998	5,164	12,076
Net Income After (1985 $):**	200	510	1,316	1,290	1,293	746	318	819	953	887	906	480	275	140	233	528
Net Income After/Farm (1985 $):**	3,987	10,216	26,494	26,118	26,313	15,259	6,566	17,083	20,100	18,901	19,501	10,386	5,962	3,094	5,164	11,796
Realized Net Income After (1985 $):**	148	434	768	1,318	1,083	591	450	653	842	681	824	583	501	503	417	460
Realized Net Income After/Farm(1985 $):**	2,944	8,690	15,464	26,684	22,035	12,082	9,296	13,625	17,764	14,517	17,750	12,608	10,864	11,078	9,242	10,270

Sources:Statistics Canada, Revenue Canada, Alberta Agriculture, DH+S estimates

*All values are in nominal dollars (000,000) except where on a /FARM basis (in actual $).

**1985 $ arrived at by applying GNE Index.

APPENDIX G - AVERAGE ALBERTA FARM BALANCE SHEET (1971-1986)

(Deloitte, Haskins & Sells, ADC Review 1986)

ASSET TYPE	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Livestock & Poultry	16,025	20,360	27,799	27,654	20,838	23,014	22,719	35,697	52,255	54,367	54,513	54,589	54,196	55,034	48,257	43,741
Land & Bldgs.	70,377	83,021	104,337	141,187	182,230	217,314	258,677	311,832	446,413	510,312	612,402	517,993	456,984	418,034	378,231	343,063
Mach. & Implements	17,293	18,150	19,867	25,823	35,128	43,147	50,207	58,245	69,521	81,873	93,922	98,525	99,888	99,110	98,942	89,684
Total Assets (Nominal $)	103,695	121,531	152,004	194,663	238,196	283,474	331,604	405,773	568,189	646,552	760,837	671,108	611,067	572,178	525,430	476,487
Total Assets (1985 $)*	319,070	356,144	408,128	453,429	500,978	543,797	592,191	679,306	862,515	881,063	937,563	749,546	648,140	590,406	525,430	465,445
LENDER																
Chartered Banks	7,037	8,415	11,337	13,540	15,074	18,240	20,057	25,355	31,416	34,025	37,205	39,598	43,012	48,501	53,191	49,107
Fed. Govt. Agencies	6,658	6,705	7,147	8,250	9,389	10,150	10,971	11,698	12,729	13,454	14,572	15,448	18,463	18,842	17,886	17,634
Prov. Govt. Agencies	1,155	1,568	3,016	4,275	4,874	5,641	6,194	7,039	8,581	12,631	18,595	24,361	27,783	31,818	34,131	35,067
Credit Unions	545	762	1,015	1,044	1,575	2,017	2,792	3,242	4,319	5,093	5,333	6,024	4,273	4,426	4,433	4,464
Ins./Trust/Loan Cos.	256	346	411	381	359	345	349	467	525	541	784	721	460	421	421	424
Priv. Indiv./Others	2,940	3,013	3,033	3,623	4,623	5,111	5,771	6,520	6,976	7,308	11,000	12,344	11,753	13,228	13,298	13,393
Total Debt (Nominal $)	18,592	20,809	25,959	31,113	35,893	41,504	46,135	54,321	64,535	73,052	87,489	98,496	105,744	117,234	123,360	120,089
Total Debt (1985 $)*	57,207	60,979	69,969	972,471	75,491	79,619	82,389	90,939	97,965	99,549	107,811	110,008	112,160	120,969	123,360	117,360
Net Worth (Nominal $)	85,103	100,723	126,045	163,551	202,303	241,970	285,469	351,452	503,654	573,499	673,348	572,611	505,323	454,944	402,070	356,398
Net Worth (1985 $)*	261,863	295,165	338,429	380,958	425,487	464,179	509,802	588,367	764,550	781,514	829,753	639,537	535,980	469,437	402,070	348,139
Equity (%)	82%	83	83	84	85	85	86	87	89	89	89	85	83	80	77	75

Source:DH+S estimates for 1984, 1985 & 1986 liabilities and 1980-1986 Land and Building values.
Statistics Canada data for assets and liabilities series 1971-1979 and 1971-1983, respectively

.* Brought to 1985 dollars by GNE index.

NOTE: ALBERTA FARM CREDIT STABILITY PROGRAM ($2 Billion farm financing) effects are excluded from Aug.86 Balance Sheet.

TOTAL DIRECT GOVERNMENTS PAYMENTS TO ALBERTA FARMERS (1971-86)

(Deloitte, Haskins & Sells, ADC Review 1986)

Year	Amount of Payment ($000,000)*	Net Farm Income ($000,000)**	Payments as % of Net Income
1971	$15	$223	6. 9%
1972	35	317	11. 0
1973	38	630	6. 1
1974	72	669	10. 7
1975	47	745	6. 3
1976	93	539	17. 2
1977	86	324	26. 5
1978	95	616	15. 4
1979	114	720	15. 9
1980	77	754	10. 2
1981	97	771	12. 6
1982	273	501	54. 4
1983	185	370	50. 1
1984	345	278	124. 3
1985	541	403	134 . 2
1986	787	737	106. 8

Source:Statistics Canada

* Includes WGSA, Crop Insurance, Dairy Supplementary Payments, Other Supplementary Payments, Provincial Income Stabilization, Deficiency Payments and Input Rebates (Subsidies).

** Net Farm Income Calculated including Value of Inventory Change, Income in Kind, Operating Expenses, Interest and Depreciation.

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John Reid

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Ray Danyluk
Doug Millar
Barry Kitt
Ted Wheat
Gary Horan
Ed Dorosz
Dean Rogan
Keith Lysons

NOTE:

- The Committee apologizes for any omissions and errors.
- In excess of 70 additional mail-in submissions were received by the Committee

Footnotes to Appendix J

* - Local A.D. Committee
1. – Alberta Cattle Commission
2. - Unifarm District 123
3. - Flax Growers of Western Canada
4. - Western Stockgrowers Association
5. - Alberta Institute of Agrologists
6. - Native Services Unit of Alberta Municipal Affairs
7. - Appeetogosan Development Corporation / Settlement Sooniyaw Corp.
8. - Alberta Indian Agricultural Development of Corporation
9. - Prairie Farm Rehabilitation Administration
10. - Alberta Agriculture
11. - Christian Farmers Federation
12. - Alberta Pork Producers Marketing Board
13 - Faculty of Business, University of Alberta
14. - Unifarm Organization
15. - National Farmers Union
17 - Farm Equipment Dealers' Assoc. of Alberta and British Columbia
18. - Ed Braun & Associates
19 - City of Camrose
20. - Fairview College
21. - Unifarm Region 15, District 1502
22. - Peace River Stockgrowers Association
23. - Lethbridge West Progressive Conservative Association
24. - Alberta Sunflower Seed Ltd.
25. - City of Lethbridge and County of Warner Agricultural Service Board
26 - Olds College
27. - M.D. of Peace River #135 and I.D. #17
28. - Alberta Beekeepers' Association
29. - Unifarm District 1501
30. - Blindman Valley Sheep Producers Association
31. - Lam Bourne Farms Ltd.

AGRI-FOOD SYMPOSIUM PARTICIPANTS

Name	Company	City
Paul Abildgaard	Nanton Spring Water Co. Ltd.	Nanton
Thor Andreassen	Lucerne Foods Ltd.	Edmonton
Gordon Barker *	Calgary Coop Association	Calgary
Howard Baum	Calgary Co-operative Association Ltd.	Calgary
Sandy Bibby *	U.F.L. Foods Inc.	Edmonton
Brian Bochard	Canada Packers Inc Edible Oil Division	Edmonton
Brian Bowes	Perco Sales Ltd.	Calgary
Terry Cammell	Canadian Imperial Bank of Commerce	Calgary
Rick Caron	Norac Technologies Inc.	Calgary
Sharon Chmielewski	Fresh Vegetable Marketing Board	Lethbridge
Alex Chrumka	Tirol International Marketing	Tilley
Bob Church	University of Calgary	Calgary
Jim Cooper	Alberta Agricultural Development Corporation	Camrose
Shirley Cripps *	Government of Alberta	Edmonton
Don Daintrey *	Canada West Trading Co.	Edmonton

Amir Datoo	Alberta Opportunity Company	Ponoka
Brent Davis *	University of Calgary	Calgary
Stockwell Day	Government of Alberta	Edmonton
Jack DeJong	Sunland Biscuits Co. Ltd	Edmonton
Joe Doeff	Alberta Greenhouse Growers Association	Lacombe
David Dover *	Calgary Chamber of Commerce	Calgary
Tom Droog	Alberta Sunflower Seeds Ltd.	Bow Island
Tony Evans	Alberta Agriculture	Edmonton
Frank Fallwell	Billingsgate Fish Co. Limited	Calgary
Doug Gerrard	Alberta Economic Development	Edmonton
Peter Gooch	Biotechnica Canada	Calgary
Jim Graham *	University of Calgary	Calgary
Gerry Gunby	Alberta Agricultural Development Corporation	Camrose
Bard Haddrell	Government of Alberta	Edmonton
Reuben Hamm *	Alberta Farm and Ranch Magazine	Calgary
Howard Harowitz *	Coopers and Lybrand, Chartered Accountants	Vancouver
Jim Harriman	Palliser Grain Co. Ltd.	Calgary
Mike Heffring *	Heffring Research Group	Calgary

David Hughes	Canbra Foods Ltd.	Lethbridge
Bernie Hummel	XL Foods Systems Ltd.	Calgary
Gorham Hussey	XL Foods Systems Ltd.	Calgary
Jack Iwabashi *	I & S Produce Ltd.	Edmonton
Bruce Johnson	Alberta Fresh Vegetable Marketing Board	Lethbridge
Gerry Kaumeyer *	Centennial Packers Ltd. (XL Food Systems Ltd)	Calgary
Jeff Kish	Virgin Springs Beverages Corporation	Calgary
Susan Kitchen	Government of Alberta	Calgary
Miles Krahn	Krahn's Homemade Style Dressings Ltd.	Calgary
Jay Krysler	Alberta Economic Development	Edmonton
Charles Lau	Carwood Group	Calgary
Abe Liron	Norac Technologies Inc	Edmonton
Jack Lister	Canada Malting Co. Ltd.	Calgary
Ian MacPherson	Sun Prairie Mills Ltd.	Nanton
Paul Madge	Alberta Agricultural Development Corporation	Camrose
Don McLean	Canada Packers Inc.	Calgary
Gary McMillan	Fletcher's Fine Foods Ltd.	Vancouver
John Melicher	Rural Education and Development Association	Edmonton

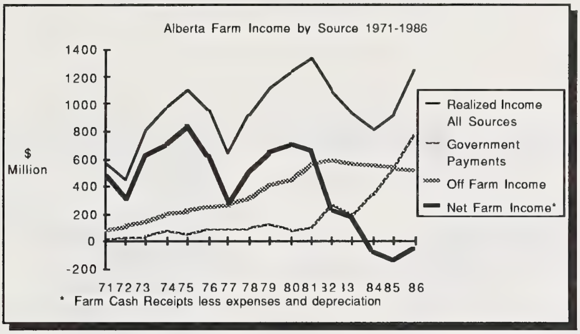
Greg Morhun	Prairie Margarine Inc.	Edmonton
Joseph Nardella	Europe Fine Foods	Calgary
Howard Oudman	Treasury Branches of Alberta	Edmonton
Doug Paddock	Canada Packers Inc.	Calgary
Gloria Paquette	Alberta Agricultural Development Corporation	Camrose
Edward Phillipchuk	Food Processing Development Centre	Leduc
Lyle Phillips	Northern Alberta Dairy Pool Ltd.	Edmonton
Mike Phillips	Vencap Equities Alberta Ltd.	Calgary
Hughe Planche	Hughe Planche Holdings Ltd.	Calgary
Doug Porter	Alberta Agricultural Development Corporation	Camrose
Glen Potter	Barry Brokerage	Edmonton
Reed Purnell	Alberta Economic Development	High River
Clarence Roth *	Alberta Economic Development	Edmonton
Ed Schultz	Alberta Pork Producers Marketing Board	Edmonton
Bob Schulz *	University of Calgary	Calgary
Jim Sherwood	Alberta Wheat Pool	Calgary
Pat Shimbashi	Diamond S Produce Ltd.	Taber

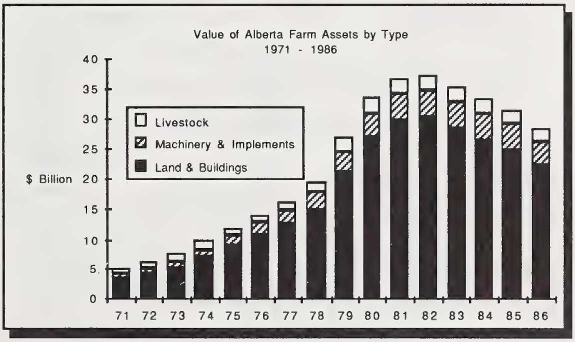
Don Smith	Northern Alberta Dairy Pool	Edmonton
Jack Smythe *	United Oilseed Products Ltd.	Lloydminster
Jane Squier	Lettuce Live	Calgary
John Stewart-Smith	Beefbooster Cattle Ltd.	Cochrane
Keith Sveinson	Royal Bank of Canada	Calgary
Harold Thornton	Agribureau, Calgary Chamber of Commerce	Calgary
John Touchie	Toronto Dominion Bank	Edmonton
Laurel Vanderlinden	Drummond Brewing Company Ltd.	Edmonton
Bryan Walton	Alberta Agriculture	Edmonton
Gordon Wells	Biotechnica Canada	Calgary
Ralph White	Western Pet Foods Ltd	.Innisfail
Don Wilcox	M.R.B. Sales (Calgary) Ltd.	Calgary
Fred Wolfe	University of Alberta	Edmonton
Cliff F. Wulff	Alberta Agriculture	Edmonton

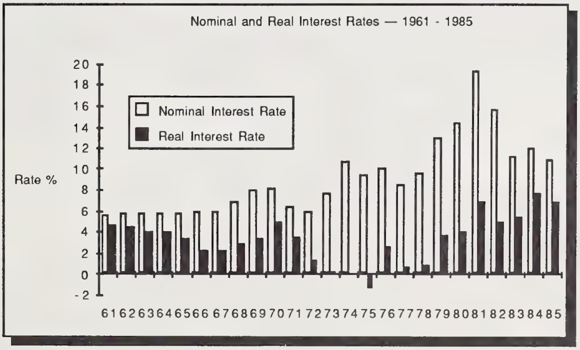
Footnote for Appendix K

* Speaker / Group Chairman

Applicable ADC Review Background Paper Drawings, 1986







LOCATION OF ADC OFFICES

ALBERTA REGIONAL MAP

■ Regional Office
○ District Office
★ Head Office

HEAD OFFICE
Alberta Agricultural Development Corporation
4910 - 52 Street
CAMROSE, Alberta — Telephone
T4V 2V4 — Area 403 679-1311

REGIONAL/DISTRICT OFFICES

South Region

REGIONAL OFFICE	Agriculture Centre LETHBRIDGE, Alberta T1J 4C7	381-5102
DISTRICT OFFICES		
BROOKS	Room 109 Provincial Building BROOKS, Alberta T0J 0J0	362-5551
CARDSTON	Provincial Building Main Street CARDSTON, Alberta T0K 0K0	653-4461
CLARESHOLM	Provincial Building CLARESHOLM, Alberta T0L 0T0	625-3301
MEDICINE HAT	Room 104 Provincial Building 770 - 6th Street S.W. MEDICINE HAT, Alberta T1A 4J6	529-3616
TABER	Administration Building TABER, Alberta T0K 2G0	223-9614
VULCAN	County Building 102 Centre Street VULCAN, Alberta T0L 2B0	485-2236

South Central Region

REGIONAL OFFICE	Agriculture Regional Centre Airdrie, Alberta T0M 0B0	948-5101
DISTRICT OFFICES		
CALGARY	M.D. of Rocky View Building 911 - 32 Avenue N.E. CALGARY, Alberta T2E 6X6	297-6281
DRUMHELLER	Provincial Building 201 Centre Street DRUMHELLER, Alberta T0J 0Y0	823-5740
HANNA	New Provincial Building 402 Centre Street HANNA, Alberta T0J 1P0	854-4451
OLDS	New Provincial Building OLDS, Alberta T0M 1P0	556-4220

North Central Region

REGIONAL OFFICE	3rd Floor Provincial Building 4920 - 51 Street RED DEER, Alberta T4N 6K8	340-5326
DISTRICT OFFICES		
CAMROSE	District Extension Office 4909C - 48 Street CAMROSE, Alberta T4V 1L7	679-1229
LACOMBE	Agriculture Building Bag Service 47 LACOMBE, Alberta T0C 1S0	782-3301
RED DEER	Main Floor Provincial Building 4920 - 51 Street RED DEER, Alberta T4N 6K8	340-5364
STETTLER	Provincial Building 4809 - 48 Street STETTLER, Alberta T0C 2L0	742-4481
WETASKIWIN	Provincial Building 5201 - 50 Avenue WETASKIWIN, Alberta T9A 0S7	352-1243

North East Region

REGIONAL OFFICE	Provincial Building 4701 - 52 Street VERMILION, Alberta T0B 4M0	853-2811
DISTRICT OFFICES		
BONNYVILLE	Provincial Building BONNYVILLE, Alberta T0A 0L0	826-3388
SMOKY LAKE	Provincial Building SMOKY LAKE, Alberta T0A 3C0	656-3613
ST. PAUL	Provincial Building ST. PAUL, Alberta T0A 3A0	645-6301
TWO HILLS	Provincial Building TWO HILLS, Alberta T0B 4K0	657-3311
VEGREVILLE	Professional Building 4809 - 50 Street VEGREVILLE, Alberta T0B 4L0	632-5400
VERMILION	Provincial Building 4701 - 52 Street VERMILION, Alberta T0B 4M0	853-2811
WAINWRIGHT	Provincial Building WAINWRIGHT, Alberta T0B 4P0	842-6126

North West Region

REGIONAL OFFICE	Provincial Building BARRHEAD, Alberta T0G 0E0	674-8258
DISTRICT OFFICES		
ATHABASCA	Room 203 Provincial Building ATHABASCA, Alberta T0G 0B0	675-2252
BARRHEAD	Provincial Building BARRHEAD, Alberta T0G 0E0	674-8213
EDMONTON	3rd Floor J.G. O'Donoghue Building 7000 - 113 Street EDMONTON, Alberta T6H 5T6	427-2450
EVANSBURG	Provincial Building EVANSBURG, Alberta T0E 0T0	727-3673
WESTLOCK	Provincial Building 10003 - 100 Street WESTLOCK, Alberta T0G 2L0	349-4465

Peace River Region

REGIONAL OFFICE	Provincial Building FAIRVIEW, Alberta T0H 1L0	835-4975
DISTRICT OFFICES		
FAIRVIEW	Provincial Building FAIRVIEW, Alberta T0H 1L0	835-4975
GRANDE PRAIRIE	Provincial Building Room 3101 10320 - 99 Street GRANDE PRAIRIE Alberta T8V 6J4	538-5280
PEACE RIVER	Provincial Building Bag 900, Box 19 PEACE RIVER, Alberta T0H 2X0	624-6170
FALHER	M.D. Building Main Street FALHER, Alberta T0H 1M0	837-2211
SPIRIT RIVER	Provincial Building SPIRIT RIVER, Alberta T0H 3G0	864-3597
FORT VERMILION	District Extension Office Box 40 FT. VERMILION, Alberta T0H 1N0	927-3712

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Alberta Agriculture
Government of Alberta